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CS Historical Paper
No. 87

Volume II of IV

CLANDESTINE SERVICES HISTORY

(TITLE OF PAPER)

CIVIL AIR TRANSPORT (CAT)

A PROPRIETARY AIRLINE

(PERIOD)

1946 - 1955

DO NOT DESTROY

Date published: April 1969

Copy #2 of 2 copies

Controlled by : SO Division

Date prepared : April 1967

Written by : Alfred T. Cox

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Copy No. 1 of 2: SOD
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VOLUME II

CAT MANAGEMENT AND CONCLUSIONS

S E C R E T

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I. CAT MANAGEMENT ACTIVITIES

Management, Legal, Fiscal and Accounting Aspects

The name CAT has been generally accepted as being indicative of the operating airline as such, regardless of the particular form of corporate structure it may have had at any given time. There was, of course the partnership of Chennault and Willauer, the Chinese company holding the franchise in the name of Chennault and Willauer, Civil Air Transport, and later, the Delaware corporation, CAT, Inc. In addition, there have been other corporate entities which have been concerned with the basic operation of the airline and have received the designation of CAT.

When CAT was forced to evacuate fron Canton to Hong Kong on 13 October 1949, its fiscal records and accountings were in an almost unbelievably chaotic condition. Many of the records had been lost, and such records as were kept were incomplete. Various stations upcountry, holding out until the last minute and then having to flee precipitously, were not able to furnish to the home office adequate accountings for funds that had passed through their hands and of expenditures

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that had been made. The accounting situation was further complicated by the wild inflationary effects of the fall of the mainland and the problems of conversion of various foreign currencies into U.S. dollars. Many of the CAT expenditures had to be paid in U.S. dollars, such as salaries to Americans and payments for gasoline and other petroleum products. It was only on rare occasions that customers on the mainland were able to provide U.S. dollars in payment of their bills.

The value of currencies in the free money exchange market in Hong Kong varied greatly; although the Hong Kong currency, itself, was felt to be reasonably stable, the cost of conversion of Hong Kong dollars to U.S. dollars varied from day to day. During the fall and winter of 1949 and early 1950, the rate of exchange approached 6.70 Hong Kong dollars for 1 U.S. dollar. The Chinese currency was generally without value. The new Taiwan currency had a fixed legal rate, but this was unrealistic and there was a rather active black market. These and many other contributing factors made it almost impossible to furnish any accurate record of the true financial position of the airline in October 1949.

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Also, it had been impossible to maintain an accurate inventory of the airline's assets. Every evacuation meant some loss of material, or investments in office furnishings, etc. Last minute evacuations forced material to be hurriedly crammed aboard the LST or the barge "The Buddha", or to be flown out, on a space available basis, on CAT aircraft.

The titles of the various senior officers in CAT varied from time to time, but each individual will be treated in respect to the actual functions with which he was charged, rather than by reference to the title he held as of any particular moment. Brennan was responsible for the functions of Legal Counsel, Secretary and Treasurer of the company, and later Executive Vice-President. He had been a confidential secretary and advisor to T.V. Soong, a most prominent Chinese financier and industrialist related by marriage to Generalissimo Chiang Kai-shek. Brennan had joined the CAT organization shortly after it came into being, and was generally considered to represent the Corcoran and Youngman interests in the airline. He had had legal training and was quite adept at dealing with the British and Chinese governments. His principal assistant in the office of the Treasurer was Mr. Earl Willoughby, whose

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background lay in financial matters. The chief accountant was Mr. Sam Tweedie, a British citizen who, after serving in the RAF for over 20 years, had had considerable accounting experience in China.

The physical conditions at the time were extremely difficult. The population of the Colony had greatly expanded due to the influx of refugees from the mainland. Housing was extremely difficult to obtain and extremely expensive. Although ostensibly the Hong Kong Government had imposed rent controls of a certain nature, these were offset by the device known as "key money." One might find an apartment available at a monthly rental that, although high, was not entirely out of reach, but in order to obtain the key to the apartment, one might have to pay sums ranging up to $15,000 to $20,000 (U.S.) as "key money." There always was, of course, the possibility that if one desired to relinquish the apartment or house, one might be able to regain his "key money" by, in turn, holding up any prospective tenant.

CAT management offices in Hong Kong were initially located in what was termed the "Goldfish Bowl." A large completely glass-enclosed office on the mezzanine of the Gloucester Hotel, it afforded no privacy from

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the casual onlooker. Various departments including the accounting department, were scattered throughout the Colony, mainly on Victoria Island, in a number of residential apartments, the only properties available at the time and quite expensive. The CAT employees, particularly the Chinese, had great difficulty in obtaining residences for themselves and their families, and then usually at an exorbitant price. Eventually CAT was able to obtain almost the entire ground floor of a residential apartment house located at some distance from the business center of Hong Kong, but the location proved to be quite worthwhile, and it was possible to concentrate most of the CAT offices at that location. The cellar was also renovated to provide additional office space.

Consideration had been given to moving the CAT headquarters and its central offices to Taipei, and Chennault, who felt uncomfortable in the British atmosphere of Hong Kong, was somewhat in favor of such a move. There were, however, many things that militated against this move at that time. The future of Taiwan was extremely uncertain; particularly in view of the fact that U.S. national policy was still rather strongly opposed to the Generalissimo and the KMT

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government, and there were no assurances that the U.S. Government would take any preventive action against a Communist invasion of the island. The controls that the Chinese Government might impose on CAT with regard to currencies, taxes, conversion of currencies into U.S. dollars, etc., were unknown factors, but there was every reason to believe that the Nationalist Government would continue to raise difficulties. Cox's cover assignment required that he be close to top management, and his OPC responsibilities were mainly concerned with action in Hong Kong (propaganda, Third Force, etc.).

About the time of Cox's departure from Headquarters on 3 October 1949, a series of discussions had been held with Chennault and Corcoran with regard to drawing up an agreement between OPC and CAT to set the terms under which OPC would contract for CAT services and provide financial assistance over a period of time to be determined later. Immediately after Cox's departure, further meetings and discussions were held on the subject between Corcoran and OPC representatives, which eventually culminated in the purchase of the airline by the Agency. The field was kept generally advised of the nature of these discussions, but was not really knowledgeable of the course of events. Even now it is

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difficult to reconstruct these negotiations. The files located thus far are scattered and difficult to correlate. In many instances memoranda are available which make specific recommendations, but it has not been possible to determine to what extent some of these recommendations were approved and carried out.

The most detailed and illuminating documents on the subject is a report prepared by Mr. [redacted] (b)(3) (then a consultant of OPC) at the request of Mr. Wisner. [redacted] report covers the history of CAT and the CAT/ (b)(3) Agency relationship from the formation of the airline in late 1946 through the period of January 1951. [redacted] (b)(3) has broken down this time period into five phases. He recounts the chronological history of each phase and then critiques it. It is the writer's judgment that this document is the fairest and most objective evaluation of the events of the period covered. Blame is shared equally by all concerned but without recrimination. The writer is indebted to Mr. [redacted] for this (b)(3) paper since it brings to light a number of events which occurred during the course of the negotiations, and it has added embellishment to others. This document is a basic reference for much of the following remarks,[1/] and where appropriate a page number in parenthesis will

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refer to the page in the [redacted] report. (b)(3)

During the month of October 1949, there were a series of meetings (pp 9-12) between Agency representatives (OPC General Counsel and the Office of Finance normally attending), which resulted in the execution of a contract between the United States Government and CAT on 1 November 1949.[2/] The contract contained a number of provisions, the major ones being:

a. The movement to and the establishment of an air base on Hainan Island adequate for governmental operation, with all construction and expense items to be approved by representatives of the government.

b. Agreement to reimburse CAT for the amount of its operations and losses to 31 January 1950, up to the amount of [redacted] (b)(3) less the base establishment expenses.

c. CAT to give the government first priority on government hauls for the period 1 November 1949 to 1 November 1950 at rates prescribed by a formula to be devised.

d. Right of the government to inspect the books and approve expenditures. The handling

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and control of supplies and equipment for the facilities paid for by funds provided by the government were protected by stipulation in the contract. Payment of the [redacted] in accordance with a 1 November 1949 agreement executed between the U.S. Government and CAT, was made in four installments during the period 2 November 1949 to 8 February 1950. On 7 November 1949, Mr. Emmet Echols wrote a memorandum on the financial aspects of this contract (p. 13) which, after approval by Lt. Col. Richard Stilwell, Chief FE/OPC, was sent to Mr. Wisner. Echols stated that in time it would be necessary to provide a financial technician for the project. The technician's responsibilities enumerated were: to ensure that adequate financial records were maintained so as to provide data that was essential to the administration of the contract; to segregate the items for which subsidy payments were applicable from those for which subsidy payments were not applicable; to determine transportation rates; to obtain concurrence of the OPC Chief of

(b)(3)

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Field Activities that the items directly chargeable to the government accounts were operationally necessary, and to act as OPC Finance Officer for confidential funds.

The Agency contracted with a certain [redacted] [redacted] (p. 11), a financial analyst, to proceed to the Far East and undertake a study of the financial aspects of the CAT operation. Apparently just prior to his departure on 14 November 1949, he turned over several classified books, unwrapped, to a hotel clerk instructing him to call the Agency and have someone pick up the books. This was considered a serious breach of security (p. 13). On 18 November 1949, a cable was sent to Cox on this security breach, authorizing him, at his discretion, to return [redacted] at any time. [redacted] reports that this cable had apparently been confusing and that Cox had been uncertain as to whether he should even meet [redacted] until the whole situation was clarified. (There was, however, no particular confusion in the mind of Cox, and [redacted] was given every cooperation by CAT management and proceeded with his study.)

(b)(3)

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[redacted] returned to Washington on 28 January 1950 (p. 15), and submitted a report of about 15 typewritten pages describing the CAT organization,

(b)(3)

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operations, financial position, and personnel in general terms, and recommending among other things tightening up in almost every phase of the business. [redacted] recommended the appointment of a managerial vice-president, the installation of a sound accounting system and a set of financial records. He was debriefed and his services terminated. (b)(3)

It was [redacted] observation that [redacted] was held in low esteem in Headquarters, and that his opinion was not given much weight. Certainly it should not have required two months to make the rather general recommendations which were put forth by [redacted]. They could have been made without even the necessity for a trip to the field. These deficiencies had been well noted by the old CAT management (Chennault, Willauer, Corcoran and Youngman). (b)(3) (b)(3) (b)(3)

On 20 December 1949, Mr. [redacted][3/] arrived in Hong Kong as the financial technician representing CIA's financial interests as recommended by Echols (p. 14). (The files with regard to [redacted] have not been very informative since the material goes back only as far as 1952 when [redacted] returned from the field.) (b)(3) (b)(3) (b)(3)

At the request of the writer, [redacted] has contacted various officers of the Office of (b)(3)

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Finance who were in Headquarters at the time, and it is their best recollection that [redacted] background had been almost entirely in government accounting, with which he was thoroughly familiar, but that he had not had any experience in civilian corporation accounting. [redacted] (b)(1) (b)(3) but because of the long delay in obtaining a financial technician for the CAT requirement, he had been requested to undertake the assignment. It was recalled that he was extremely reluctant to do so, stating that he did not feel that he was competent to effectively carry out his mission, and it was with this reluctance that he accepted the assignment. (b)(3)

Initially, Cox had been sent to the field on a TDY basis with a general understanding that he would be gone two or three months, depending on the situation at the time. He returned to Headquarters in January 1950, and at that time was asked by Mr. Wisner and Stilwell if he would be agreeable to returning to the field on a PCS basis. His reply was that this was entirely agreeable, providing his family could join him in Hong Kong, and providing that assistance be given in the form of additional expertise on the fiscal side of management and the establishment of a suitable person, a junior

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officer, [redacted] (b)(1) (b)(3) who could keep records and prepare the necessary monthly accountings for the expenditure of Agency funds. It was promised that this assistance would be forthcoming as rapidly as possible.

Although [redacted] basic responsibility lay with (b)(3) the control of Agency funds provided to the airline and he was not to function as either the CAT chief accountant or treasurer, it was expected that he would be in a position to furnish some kind of reports on the financial operations of the company. On 3 February 1950, he submitted a very short informal report covering the months of November and December (p. 16). The basic elements of this report were the income and expenditures during this period and the base construction costs incurred at Hainan in November and December.

During the months of February and March negotiations continued with regard to either the possible purchase of, or the further subsidization of, CAT for a six-month period [redacted] This (b)(3) proposal was taken up before what was known as the "little NSC." (N.B.: Exactly what is meant by "little NSC" is not clear, but it probably consisted of very highly placed representatives of State, Defense, and

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the NSC, as duly appointed by their superiors. The General Counsel has commented that there was such a group established to provide policy guidance to OPC, but that he cannot recall the composition of the group.) The "little NSC" appeared to believe that it would be preferable to subsidize CAT for six months with an option to purchase the assets. After additional negotiations, a tentative agreement was reached that the United States [redacted] to pay (b)(3) existing pressing debts, and [redacted] to keep (b)(3) it operating through June. The United States would be given the option to purchase CAT assets for an additional [redacted] (b)(3)

[redacted] (b)(1) (b)(3)

keep the airline alive during the difficult period following the fall of mainland China. On 6 April 1950, OPC/CAT was advised by Headquarters that it felt [redacted] should remain in Hong Kong at least until (b)(3) 30 June 1950 because of his personal knowledge of the operations. He should continue to render financial

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(b)(1)
(b)(3)

accountings (p. 21).

that, in opinion, CAT should carry on as it was until 30 June with "additional controls now being effected." Willauer and Cox concurred that his return would better serve OPC interests, especially in terms of long-range security. (b)(3)

OPC reluctantly agreed, mainly on the representation His return was authorized on 22 April, and he departed from Hong Kong on 29 April. In point of fact, (b)(1) (b)(3)

was not the overriding reason for Willauer and Cox recommending his return. had been simply overwhelmed by the enormity, complexity, and the chaos of the situation in which he found himself on coming to the Far East in December 1949. His health was definitely beginning to suffer, and it was questionable whether he could work effectively until 30 June. (b)(3)

In April OPC retained to make a survey and an evaluation of CAT assets. He departed for Hong Kong on 26 April 1950 (p. 22). (b)(3)

had been in touch with the Agency earlier in 1949 when consideration was being given to having (b)(3)

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[redacted] This would have given Rosholt communications upcountry while on his fact-finding mission to China in the summer of 1949. This proposed venture was never implemented. (b)(1) (b)(3)

[redacted] spent approximately a month in Hong Kong and, on his return to Headquarters, submitted a very comprehensive report which restated the excellent operational record of CAT in the past and outlined future CAT prospects. He also provided a general inventory of all the assets which, combining tangibles and intangibles, aggregated $8,400,000, although the basis for this evaluation is not clear (p. 23). (b)(3)

Negotiations were continued, all more or less directed toward the eventual purchase of the airline by the Agency. Under terms of purchase, the handling of certain optional rights were to revert to Chennault and Willauer; later this was changed to Willauer and Brennan. The actual sale was accomplished on 23 August 1950. The CAT assets were transferred to a new operating corporation, CAT, Inc., [redacted] (b)(1) (b)(3)

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[redacted] The purchase price was [redacted] (b)(1) (b)(3)
[redacted] adjusted for advances previously given in order to keep the airline alive until the actual purchase was consummated. An executive management contract was made with Willauer to cover a period of two years (pp. 23-24). (b)(3)

At the same time a letter was directed to Willauer and Brennan granting to them an option under certain conditional terms. The option gave them the right to purchase all of the capital stock of CAT, effective 1 July 1952 and until 1 July 1955, for [redacted] plus all working capital or loans advanced in behalf of the United States. The option, joint and non-assignable, terminated with the death of either party, or on the voluntary termination of their services. Should the airline be disposed of before 1 July 1952, Willauer or Brennan would be given an opportunity to buy the assets before they were offered to any other purchaser (pp. 24-25). At a later date this option agreement was revised to give Brennan and Willauer rights of first refusal without a time limitation. (b)(3)

[redacted] was appointed to act as treasurer of CAT and left for his second assignment to Hong Kong on (b)(3)

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10 September 1950 to assume fiscal control for OPC.

For reasons of their own, the Corcoran group did not reveal to the Agency for some time the true ownership interest in CAT. It was known that the Kin Cheng banking group had been given a substantial ownership interest in return for their provision of the initial working capital which permitted CAT to operate. The Willauer papers at Princeton University indicate that this ownership was 40 percent of the company. It was known that Americans other than the Corcoran group were involved, particularly one L.K. Taylor. Taylor did not actively participate in the airline operations but ran a trading and export and import company known as the Willauer Trading Company which did a substantial amount of business in the interior of China, having a preferred position for space on CAT aircraft going inland and returning to the various ports

Corcoran was able to purchase the interest of the Kin Cheng banking group rather quickly because the group members were anxious to disassociate themselves from CAT and the Nationalist Government in order to try to make an accommodation with the ChiComs to safeguard their interests on the mainland. The interests of the Corcoran group, of course, were bought out with the purchase

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of the airline by the Agency. Later it developed that the bulk of the remaining stock was owned by Rio Cathay S.A., a company wholly owned by the Corcoran brothers and Mr. William B. Youngman, and that the ownership actually held by Chennault and Willauer was minimal.

Taylor, who at best can be described as a cantankerous individual, balked at selling out his part of the ownership of CAT for the price that he was offered by Corcoran. Attempts were made to reach some kind of agreement but Taylor was adamant.[4/] In early November of 1951, he advised that he was bringing suit against Corcoran and others in Taiwan, claiming that he had not received his share of proceeds from the sale of CAT. Minister Karl Rankin was requested by the Department of State to call Taylor in and make strong representations to him that his proposed suit would be harmful, not only to CAT but to American interests in general. This was done by the Minister, but Taylor indicated that he intended to continue with his suit.

Fortunately, however, Willauer and Taylor finally were able to reach an agreement and the suit was never heard. It is the writer's belief that one part of the eventual agreement was that the Corcoran group would join with Taylor in attempting to set up an export-

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import operation similar to the Willauer Trading Company in the interior areas of Pakistan.

Early in September of 1950, the BOOKLIFT contract (p. 26) was negotiated with FEAF to provide airlift in support of the UN efforts in Korea.[5/] As a result of this contract, CAT had built up to 1,665 flying hours in September, 3,480 hours in October, and about 4,000 hours for November. Unfortunately, this did not represent as much of a profit as might have been expected. The expenses involved in building up almost overnight from a 400- to 600-hours level to the 4,000-hour level per month were quite heavy. It involved transportation costs for bringing additional personnel to the field, activating aircraft that had been in storageable condition for several months, etc.

[redacted] summarizes the position of CIA's interest (b)(3)
in CAT as of January 1951 as follows (p. 28):

> "CIA has spent [redacted] to meet CAT's (b)(3)
> operating losses from November 1949 through
> September 1950 and spent an additional
> [redacted] to purchase the CAT Airline. It (b)(3)
> now owns and operates the airline subject to
> a provisional option to buy effective 1 July
> 1952. OPC has a fiscal representative serving
> in CAT and one man serving as the Vice-President
> and also doing OPC operational work but required
> to devote a large part of his time to the
> business operations of CAT. OPC has no business

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representative as such in CAT. It is understood that all CAT bank checks must be countersigned by [redacted]" (b)(3)

[redacted] concludes his report with a long series of (b)(3) recommendations which were not sent to the field (p. 32). Fifteen years later a review of these recommendations was made by Cox to see how many were actually implemented, the time lag between the acceptance of the recommendations and their actual implementation, and whether or not, in the light of events, the recommendations still had validity.

In general terms the recommendations called for:

a. The dispatch to the field of a competent individual with a financial and business background. This individual would be sent to the CAT offices for the purpose of undertaking a detailed study of the accounting and fiscal procedures within the airline, and to determine when it might be expected that improvements in the financial reporting could be effected. Also to report on the efficiency and competence of the officers and supervisory personnel of the CAT organization, including [redacted] to ascertain as accurately as possible its present financial position. (b)(3)

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b. The execution of certain documents in order to bring the records into accordance with accepted business and legal procedures.

c. The initiation of action to recruit suitable personnel for responsible executive positions with CAT. Included in this was the recommendation that Cox be relieved of all management duties except those necessary to maintain cover.

After reviewing the above, Cox can only comment generally that those recommendations applicable to the field were painfully slow in implementation, mainly because of failure to promptly dispatch qualified personnel to the field and, with regard to fiscal and accounting problems particularly, the poor caliber of people who finally did arrive.

Ironically, on the same date that [redacted] submitted his report to Mr. Wisner, Cox, who was in Headquarters, was being requested by Mr. Wisner and Stilwell to return immediately to the field in order to assist in the implementation of three major projects: [redacted] For a number of months, Cox was kept in an almost continuous travel status and often logged as much as 250 hours of air

(b)(3)

(b)(1)
(b)(3)

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travel during a month. All three projects called for the provision of air support. It was necessary that Cox handle this CAT support for OPC operations, and in addition, he had a considerable amount of responsibility for CAT management. Willauer's health was not too good and he was spending considerable amounts of time in the States. Therefore, Cox did not notice any decrease of his management duties, which had been more or less forced on him.

There were frequent periods in which it was necessary for Cox to assume not only the title but the responsibility as acting president of the airline. Almost all operational problems could be handled by his immediate subordinates, C. Joseph Rosbert, Hugh Grundy and Robert E. Rousselot. Traffic and sales problems were being handled in an excellent manner by A. Lewis Burridge, Var Green, and other competent personnel. It was mainly on the fiscal and accounting side of airline operations that continued difficulties were encountered.

Both Cox and [redacted] urgently requested that Headquarters provide additional assistance in the Accounting Division. Some assistance was forthcoming in early 1951 when [redacted] (b)(3) (b)(3)

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arrived in Hong Kong for assignment to the Accounting Division. After a short period of familiarization, [redacted] was dispatched to Tokyo to take over supervision (b)(3) of the accounting functions for Japan and Korea. [redacted] remained in Hong Kong to serve as a principal (b)(3) assistant to [redacted] Headquarters indicated that (b)(3) both had been cleared by Security, but that they had not been made witting of the Agency interest and ownership in the airline. There seemed to be no reason for the field not to accept them at face value, although it was noted that [redacted] had a propensity to drop casually (b)(3) the names of Senators John J. Sparkman and Lister Hill of Alabama with the inference that he could be considered their protege. Later this was denied as neither senator knew [redacted] or was aware of his employ- (b)(3) ment by CAT.

On a routine visit to Tokyo in July of 1951, Cox noted that [redacted] in addition to his responsibilities (b)(3) for CAT accounting, appeared to be involved in a number of extracurricular business activities some of which were of considerable magnitude. It appeared that other CAT personnel were involved to the extent of making investments in the activities with which [redacted] (b)(3) was concerned. Cox therefore cabled Washington

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requesting a summary background on [redacted] with particular (b)(3)
reference to his private financial status.[7/] A reply
was received from Headquarters on 14 August 1951,
indicating that the check on [redacted] had revealed no (b)(3)
derogatory information.

In mid-summer 1951 an audit team from the firm of
[redacted] arrived in Hong Kong to (b)(3)
make the first audit of the CAT books on behalf of CIA.
Mr. [redacted] was the chief auditor. A member of (b)(3)
the team was Mr. [redacted] (now deceased), a CIA (b)(3)
staff employee with the Office of Finance. Mr. [redacted] (b)(3)
responsibilities were, [redacted]
[redacted] to review the operational handling of CIA funds (b)(1)
(b)(3)
and to assist in establishing better procedures and
accounting reports than it had been possible to submit
up to that time. He was also to observe actual con-
ditions in the field in order to make recommendations
as to expenditures which often had to be estimated
rather than fully documented.

The audit team spent approximately three months
in going over the CAT books, and, during the course of
their audit, physically visited all of the major air-
line stations and bases. After concluding their field
audit, they returned to the States to prepare their
final report.

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Despite the presence of the audit team during the late summer and early fall of 1951, there did not seem to be any diminishing of [redacted] extracurricular activity. (b)(3) Cox began to receive reports, originating with [redacted] (b)(1) (b)(3) that [redacted] was engaged extensively in the black market, activities which later involved Burridge. (b)(3) Burridge was one of the most able and vigorous young CAT executives. Although it became necessary to terminate him because of what was considered evidence that he had used company funds for black market activity, there was no evidence that he had in any way embezzled funds. In February 1952 Willauer was requested to meet with [redacted] to discuss with him his extracurricular activities and to pave the way for terminating [redacted] employment. (b)(3) This meeting was held in Tokyo on 25 February 1952.[8/]

Willauer informed [redacted] that numerous statements about [redacted] outside activities had been called to his attention, and he wished to give [redacted] a full opportunity to present his side of the case before further action was taken. [redacted] indicated that this was agreeable to him also, stating that he was willing to resign, but did not desire to do so while under fire.

(b)(3)

(b)(3)

(b)(3)

(b)(3)

(b)(3)

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He described his outside activities as follows:

a. An apartment house, restaurant, etc., belonging to Allied Industries Corporation. This apartment house was financed indirectly from funds largely supplied by CAT pilots and operations executives stationed in Tokyo. [redacted] (b)(3) stated that he owned one-seventh of this venture and was the treasurer of the company. He said that the company had extra capital and was currently moving into the moving picture business in a small way and considering other small investments in anything that looked profitable.

b. Gulf Coast Asiatic Company. [redacted] and owned 50 percent of the (b)(3) company, which had an office in Tokyo and in New York. It had a full-time staff of 22 people in Tokyo and a full-time manager, Mr. Arthur Buckley, who was part Japanese and part British. The major portion of the company business was in furnishing meats, vegetables, and fruits to U.S. military installations including the fleet at Yokosuka, and at various airbases. It

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did business with the PX's in pearls, popcorn vending machines, and other items procured in Hong Kong, etc. It also had a stateside pearl business located in New York City. It operated as commission agent for a number of commodities.

c. The Orient Publishing Company and the Orient Printing Company. [redacted] owned 50 percent of each of these companies. In the section on Propaganda of this paper (Volume I), it was noted that Ed Hunter had advanced $10,000 without authorization to Marshall Staynor for the establishment of these two companies, which were jointly owned by [redacted] and Staynor.[9/] (b)(3) (b)(3)

d. Gulf Coast Trading Company, Inc. The company was not active at the time but expected to become active shortly. It would concentrate on the shipment of consumer goods from Japan to Korea.

e. Marco Polo, Inc. A joint venture with Marshall Staynor designed for a general import-export business into Hong Kong, but apparently doomed for lack of capital.

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f. [redacted] stated that he was negotiating many other deals but did not have money invested in them as yet. He was looking into one venture involving lacquer. (b)(3)

[redacted] maintained that he had always fully discharged his duties with CAT and had never done any private business on CAT's time or using CAT's facility. He stated that he had been complimented on his work, and to his knowledge there was nothing derogatory on him in the files. (b)(3)

As a result of the [redacted]-Willauer interview, Willauer advised [redacted] that he felt that it would be better for all concerned if Gwin resigned. On 11 March [redacted] sent a letter of resignation to [redacted] with an effective date of 15 March 1952. A security agreement was executed by [redacted] on 16 April 1952. (b)(3) (b)(3) (b)(3) (b)(3) (b)(3)

Although reasonably certain that [redacted] had probably made off with company funds, Headquarters decided for reasons of security that there would not be any prosecution, although every effort would be made to recover whatever could be recovered from [redacted] activities. (b)(3) (b)(3)

Physical assets such as pearls were turned over to CAT. [redacted] also assigned his interests in various ventures to CAT. (b)(3)

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Since [redacted] returned to the United States, a security report has been provided to the Agency covering his activities during each year. His record is a melancholy one, involving an almost constant change of employment and almost always an accumulation of bad debts. (b)(3)

[redacted] (b)(3)

[redacted] was replaced by Mr. [redacted] (b)(3)
(b)(3)
[redacted] and junior accountant. A particularly vexing (b)(3)
problem facing CAT at that time was the recovery in U.S.

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currency of substantial amounts which had been advanced to the Korean National Airways (KNA) in order to enable the airline to begin its operation. (The basic advantage to CAT in making these advances was to be able to obtain scheduled rights into Korea.) The general manager of KNA, Captain Shinn, continually pleaded that, although he had hundreds of millions of won on his hands, he had not been able to get the Korean Government currency control authorities to release U.S. dollars to him.

[redacted] was charged with trying to find measures to reduce the outstanding balance. (b)(3)

[redacted] (b)(1) (b)(3)

(This is a separate story and does not concern CAT.)

As a result of his negotiations with Captain Shinn, [redacted] was offered the post of general manager of KNA. He decided to accept, and so advised CAT and the Agency. His acceptance seemed to offer some slight (b)(3)

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[redacted] However, little of value (b)(1) (b)(3)
developed. It was significant that [redacted] acceptance
indicated that Shinn must be obtaining some foreign (b)(3)
exchange, since [redacted] would hardly accept salary pay- (b)(3)
ments in won. [redacted] resigned from the Agency on (b)(3)
30 April 1953. Once again CAT had a senior accounting
post to fill.

It has been noted previously in this section that
[redacted] had found his assignment in late 1949 and early (b)(3)
1950 to be more than he could handle. The additional
responsibilities as treasurer and the embezzlements by
two hopefully valuable employees in the accounting
division had caused [redacted] mental condition and (b)(3)
health to deteriorate. Headquarters was quietly
advised that immediate preparations must be made to
replace [redacted] as treasurer and to provide addi- (b)(3)
tional support to the fiscal and accountings divisions
of the company

In early 1952 CAT was advised that a Mr. [redacted]
[redacted] would be arriving in Hong Kong shortly to (b)(3)
assume the duties of comptroller. [redacted] left Hong (b)(3)
Kong for the States in the late spring and was replaced

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by Mr. [redacted] as treasurer. Later in the (b)(3)
summer Mr. [redacted] arrived to become the financial (b)(3)
advisor.

[redacted] survived for approximately three months in (b)(3)
the position of treasurer. He was completely unsuited
for the job, and his departure was by mutual agreement
on both sides. [redacted] a rather elderly man, was not (b)(3)
able to adjust himself to conditions in the Far East,
and his health deteriorated to the extent that it was
necessary to relieve him and send him back to the
States after a period of only a few months with the
company.

Although [redacted] had departed for the States (b)(3)
earlier in the year, he did not formally resign from
CAT until 30 September 1952. The record indicates that
he underwent a considerable period of unpleasantness at
Headquarters.

[redacted] (b)(3)

A draft memorandum by [redacted] (b)(3)

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[redacted] 201 file gives much evidence that [redacted] (b)(3) was extremely agitated and upset, particularly because (b)(3) of the accusations leveled against him, and also because the Fiscal Branch had indicated that he was accountable to the Agency [redacted] He spent many (b)(3) months in trying to justify various expenditures which he thought ought to be credited against the outstanding balance. On 13 March 1954, at Headquarters request, Cox wrote a memorandum attesting to the overload and the working conditions under which [redacted] had been placed (b)(3) and certified six specific claims. [redacted]

(b)(1)
(b)(3)

A final settlement with [redacted] and his termi- (b)(3) nation of employment with the Agency was made effective on 24 August 1954. There is no record in the file of [redacted] later activities. (b)(3)

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In a memorandum dated 24 September 1952, Mr. Stuart Hedden, Inspector General, advised Colonel Sheffield Edwards, Chief of Security, that the transfer of [redacted] (b)(3) [redacted] in the Finance Division (b)(3) was then under consideration. Hedden states that, though there had been no allegation of wrongdoing, [redacted] had (b)(3) been the supervisor of two men who had embezzled funds. In Hedden's opinion this did not reflect the kind of judgment required of a senior officer in a supervisory capacity; he stated that [redacted] should not remain with (b)(3) the Agency in any capacity.[13/]

Two days later, on 26 September, Hedden wrote another memo to Colonel Edwards advising that Mr [redacted] who was Chief of the Finance Division when (b)(3) [redacted] was hired as CAT treasurer, had stated that (b)(3) [redacted] had protested strongly against being given that (b)(3) assignment. He had pointed out that he was not an accountant, did not know what a treasurer should do, and was not competent to take the job. [redacted] said that (b)(3) this was not a protestation of modesty, but a sincere desire to avoid a job which [redacted] had felt from the (b)(3) beginning was over his head.

Hedden felt that this information was very much in the man's favor in that his earlier paper was based on

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[redacted] lack of understanding of his own limitations. (b)(3)
He had discussed this with Mr. Robert Bannerman, DC/OS, and would be satisfied with any conclusions reached as to [redacted] future usefulness.[14/] (b)(3)

Claims and Counterclaims

Despite the conclusion of the purchase agreement in August 1950, a number of claims and counterclaims remained between the Agency and the old management. Several questions regarding the 1949 contract had not been settled. The apparent inability to resolve these differences threatened to affect adversely the relationship between the Agency and management. Inspector General Hedden was requested to attempt a settlement of these differences as soon as possible.

Hedden noted that, in addition to the frictions which had developed between the Agency and the Corcoran group, there was a conflict within the Agency [redacted] (b)(3)
As a result, the operators felt that their capacities were impaired.

On 20 December 1951, Messrs. Hedden, Houston and Walter R. Wolf (DD/A) met with Corcoran to review all the open transactions and to resolve as many as possible. Agreement was reached on practically all items.

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The Agency made several minor concessions in the interest of cutting short what might have developed into a long drawn-out acrimonious dispute.[15/]

In September 1953, Mr. Harold Newell arrived in Hong Kong to assume the position of treasurer of the company. Cox was of the opinion that Newell was the first truly competent and effective person to be provided by Headquarters to straighten out the chaotic fiscal condition of the company. (Mr. Newell was not a staff employee of the Agency. He was hired directly by CAT and cleared by the Agency.) An immediate and continuing improvement was noticed in the monthly reports furnished to Washington and in the overall caliber of control of funds, inventory, etc. One of the first things that Newell set about to accomplish was to redesign CAT's accounting and reporting procedures to conform with those which the CAB and CAA require of American airlines.

The following comment from the viewpoint of the field should be made. There is little question that each year Headquarters engaged in serious soul-searching as to the advisability of continuing the CAT project, or, alternatively, abandoning it because of fiscal deficiencies and the subsidy requirement. It was

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known that the report of the [redacted] team, which came to the field for the first audit in 1951, would be dismal. There was no question as to the need for an annual audit of the company, especially in view of hidden government ownership. These audits were expensive. Would it not have been highly desirable to give the audit team a second mission--to establish proper fiscal management and procedures in the airline, to include recruitment and placement of capable supervisory personnel, or, alternatively, to send out a management team for the same purpose? As it was, the audit team did what they were called on to to--locate and note the many deficiencies. The files at Headquarters that express concern are voluminous, but the record of providing adequate and timely assistance to the field is dismal. In the terms of the old saying, "Everyone talks about the weather, but no one does anything about it." (b)(3)

As indicated earlier, CAT's numerous legal affairs were in general handled by Brennan. Headquarters was not particularly happy about this arrangement, since there was a possible conflict of interest between Brennan's activities on behalf of both CAT and CATI. In the fall of 1950, Headquarters dispatched a young

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lawyer, [redacted] to act as legal assistant (b)(3)
to Brennan, and with the long-range purpose that if a decision had to be made that Brennan could not act on in behalf of both companies, [redacted] would then be in a (b)(3)
position to take over as legal counsel of CAT. [redacted] (b)(3)
was an extremely bright and able young lawyer who quickly mastered the problems and worked closely with Brennan.

Matters did not work out as anticipated, however. [redacted] became more and more involved in the CATI aspects (b)(3)
of Hong Kong activities; in the fall of 1953 he advised Cox that he was planning to resign from CAT and accept an offer from CATI. He requested that Cox should so advise Headquarters in order that arrangements could be made for his replacement. [redacted] indicated that if (b)(3)
not too much time were lost in locating a replacement, he would defer his resignation to permit a certain amount of overlap. A replacement was urgently needed since a number of complex problems faced the airline, including the renewal of the operating franchise and the probable adoption of a new Chinese foreign investment law that would undoubtedly require readjustments in the corporate structure of the CAT organization.

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Cox returned to Headquarters in late November 1953 and interviewed [redacted] a young lawyer and (b)(3) CIA staff employee, who had been assigned to the [redacted] and who had considerable background (b)(3) knowledge of the acquisition of CAT and current CAT problems. He was married, with two children, and was somewhat reluctant to consider moving his family to Hong Kong. This was not at all an abnormal reaction on the part of staff employees who were requested to accept overseas assignments, particularly those in the administrative fields. It was agreed that he would come out to Hong Kong on a TDY of approximately one month in order to look over the situation and decide whether to accept the assignment.

[redacted] arrived in Hong Kong in December 1953, and (b)(3) was briefed on the legal problems facing the airline. He then visited Taipei and Tokyo. At the end of a month of observation he advised Cox that he would accept the job and move his family to Hong Kong. He felt assured that adequate schooling was available in the British school system there. He requested permission to return to the States via Europe, which request was readily granted, and he departed from Hong Kong on 12 January 1954.

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Just prior to his departure, Cox had written a sterile Letter of Instructions to [redacted] outlining various matters that he should take up back in Headquarters. [redacted] traveled via PAL across Asia and on into Europe. On the approach to the airport at Rome, the plane, a DC-6, crashed, killing all of the crew and passengers. (b)(3) (b)(3)

Cox was advised and proceeded to Manila, where he was joined by the director of engineering of the Philippine Airlines; both men went on to Rome. They were met at the airport and were escorted directly to the scene of the crash. The impact area was located in a section of Rome with heavy concentrations of limestone deposits directly beneath the soil. This type of limestone deposit produced the famous catacombs of early Christian history. The plane had apparently hit the ground almost vertically, as evidenced by the thin line stretching out on both sides of the point of impact where the forward edge of the wings had hit the ground. The heavy wheel assembly of the aircraft had plunged through layers of limestone intermixed with open spaces, and was deeply buried more than 30 feet under the surface of the ground. All of the wreckage visible on the surface consisted of fragments of rubble. The area

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had been fenced off by the Italian Carabinieri in order to keep the curious, and perhaps scavengers, from the scene.

While idly walking through the area, Cox scuffed a small pile of rubble and noticed the charred edge of a white piece of paper protruding from the pile. Making certain that the guards were not watching, he picked up the piece of paper and found it almost intact, except for the charred edges. It was the Letter of Instructions signed by Cox, which had been given to [redacted] just prior (b)(3) to his departure. Also found nearby was a portion of a yellow sheet which apparently had been used by [redacted] (b)(3) to record his trip expenses. The Letter of Instructions was the largest single part of [redacted] and his posses- (b)(3) sions that was identifiable. At a much later date a shipment of what was purported to be [redacted] remains, (b)(3) as best reconstructed by competent authorities, was shipped to the States for burial.

From Rome, Cox proceeded directly to Washington and there met with the Agency officials concerned with CAT management and the operation of the airlines. He reviewed with them the intent of the instructions in the letter carried by [redacted] and left the charred (b)(3) paper with them. In company with [redacted] (b)(3)

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(b)(3)

[redacted] a call was made on Mrs. [redacted] (b)(3) to express the condolences of the airline and of Cox, personally. Cox then returned to Hong Kong where many of the legal problems were entering a decisive stage.

It was clear to Headquarters that help in the form of a proper legal counselor had to be provided. [redacted] (b)(3) resignation, predicated on [redacted] (b)(3) acceptance of the assignment, became effective on 16 January 1954. At Headquarters, a staff agent, [redacted] (b)(3) who had been assigned to the [redacted] (b)(3) and who had some familiarity with CAT operations, was requested to undertake the assignment. He accepted and arrived in Hong Kong on 9 March 1954.

In his report on CAT of 16 January 1951, Mr. [redacted] (b)(3) had recommended that Headquarters:

> "Initiate action to recruit a person qualified by airline or other business training for placement in the executive position in CAT to act exclusively as the managerial executive for CIA's proprietary interests in CAT, whether in addition to or in replacement of either Brennan, Willauer or both."

The services of a retired Naval Air Admiral, C.H. "Dutch" Schildhauer, were procured for this purpose. He arrived in Hong Kong in September 1951, and was designated as vice president of the airline.[16/] Admiral Schildhauer was conscientious and industrious, but had little background or experience in commercial aviation.

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It soon became evident to all airline personnel that he and Willauer were incompatible. The writer believes that Willauer felt the introduction of Schildhauer into the airline as a vice president represented a lack of faith on the part of the Agency in Willauer's managerial abilities. He had been led earlier to believe that, having purchased the airline, the Agency did not want to get too deeply involved in its day-to-day operations, for which reason his services as manager were retained. The growing discord between Schildhauer and Willauer became painfully obvious. Most of the senior officers of the company were uncomfortable, since it was difficult for them to serve two men. The old line CAT employees had a tremendous sense of loyalty toward Chennault and Willauer and, although they gave Schildhauer complete cooperation, it was obvious that, should a choice have to be made between the two, their loyalty was strongly with Willauer.

Schildhauer, who recognized the conflict between himself and Willauer, decided to base himself in Taipei in order to keep the friction from becoming too obvious and open. There he concentrated on the operational and engineering aspects of the company's operation, which

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unfortunately (or perhaps fortunately) were the company's strongest points and required least supervision. Grundy, Rosbert and Rousselot knew their jobs and were doing them well. The crying needs of the company were in the fiscal, legal, and traffic and sales phases of the operation.

Although it was known that Willauer held discussions with Headquarters officials in the late summer or early fall, just how or when the decision to release Schildhauer was made does not appear to have been recorded.

In the November monthly report for the Board of Directors, Cox (acting president of CAT at the time) wrote:17/

> "With the concurrence of all interested parties, the decision was made that CAT would not at this time participate in the establishment of a Japanese overhaul project. However, recognizing that our expressed previous interest in such a venture had perhaps influenced and even overstimulated the Japanese and FEAF as to our intentions regarding such a project, the services of Mr. Schildhauer for the duration of his CAT contract were made available toward making an attempt to interest other sources in such a project. Indications are that, by doing this, we have maintained the good will of the Japanese and FEAF.
>
> "Assurances have been obtained from Mr. Schildhauer that his future efforts will not in any way commit CAT, without due authorization, and that the future interests of all

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parties concerned will be protected.

> "The latest information indicates that Mr. Schildhauer, as a representative of Nakajiama, may be attracting Pacific Air Motors in support of this project."

Schildhauer had been active in trying to develop the Japanese aircraft overhaul project, which seemed to have little to offer CAT, and which might have resulted in competition for engineering contracts with FEAF. His efforts in that direction provided the pretext for his release with reasonable good will on all sides.

Cox also stated:

> "Top management is definitely not satisfied with the progress thus far in the reorganization of the fiscal side of the company.
>
> "The board is reminded that this unfortunate situation, regarding the fiscal side of CAT, has existed since 30 June 1950, and, for good and sufficient reasons, management in the field is not empowered to arbitrarily select its own candidates for the top fiscal positions."

Despite the apparent inability to attract top-notch fiscal talent for employment with the airline, CAT did not suffer from lack of attention in the form of frequent inspection visits by top-level Agency officers. One of the first to come out and spend several weeks was [redacted] (b)(3)

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very senior, experienced, quiet and unassuming, responsible for the administrative aspects of CAT, was very cooperative with everyone in the airline, including the wives who enjoyed meeting with him in the evenings for dinner. He was respected greatly by Willauer, and in a quiet way was able to persuade Willauer to undertake corrective actions in various phases of the company's operations.

He was followed by a succession of other inspecting officers, including [redacted] who had been a consultant when writing his report of January 1951. [redacted] initial report as a consultant had been quite objective, effective, and fair. He had subsequently become a staff employee and was assigned as Special Assistant for Inspection in the Office of [redacted]. [redacted] visited the airline in 1952. (b)(3) (b)(3) (b)(3) (b)(3)

Relationships between Willauer and [redacted] deteriorated on this visit. Sparks began to fly as soon as both men entered the same room. It was a very disturbing experience to see this growing rift between the old CAT management and the Agency. Willauer, who had a tendency toward flamboyance, appeared to accent this in discussions with [redacted] was a stickler for detail and conformance with the strict letter of the (b)(3) (b)(3)

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regulations. Willauer tended to cut a wide swath, often leaving behind him a lot of loose ends which had to be cleaned up, whereas [redacted] tended to keep things in order as he went along. This was not a feeling against the so-called "Ivy League" on the part of [redacted] for Mr. Wisner, who had a background similar to that of Willauer, held the complete loyalty and devotion of [redacted]. Be that as it may, the growing antipathy between the two was no good as far as the relationship between CAT management and the Agency was concerned. (b)(3) (b)(3) (b)(3)

The writer has not seen [redacted] report on his inspection trip, but it is certainly reasonable to assume that, although the report in general would be critical but fair, in specifics it would be quite derogatory toward Willauer. The writer has seen a memorandum written by [redacted] at a later date, in which he attacked the integrity of Willauer and questioned his fitness to be involved in any U.S. Government assignment of trust.[18/] This deterioration of relationships manifested itself in several ways, such as the friction between Willauer and Schildhauer previously noted, and in the annual Headquarters evaluation of CAT. [redacted] adverse reporting appears to have exerted (b)(3) (b)(3)

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an influence on the willingness of operating components to a positive attitude toward the retention of the airline.

Among the other visitors on inspection trips to CAT was [redacted] the Comproller of the Agency, who spent two or three days in Hong Kong.* (b)(3)

The relationship between Corcoran and Willauer (the old management) and the Agency continued to deteriorate, and this began to have an effect on the

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[redacted] (b)(3)

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airline itself. A review of the files of the period (1950-1955) indicate a growing disenchantment among senior officials of the Agency at the interminable bickering and the inordinate amount of time they had to devote to CAT problems and to the CATI litigation. The files indicate that almost every year the retention of the airline hung by a thin thread; each year only a favorable decision on the part of the DCI kept the project going.

In late 1952 Cox was recalled to Washington to meet with the DD/P and other officers. He was advised that a decision had been made to relieve Willauer as president of the airline, that Willauer had agreed to this and was to be appointed vice-chairman of the Board of Directors. Mr. Wisner asked Cox if he would be willing to accept appointment as president of the airline. Mr. Wisner noted that Cox on many occasions, a few of extended duration, had occupied the position of acting president and had performed in a creditable manner. The Agency felt that Cox, with his knowledge of the airline and conditions in the Far East, was well qualified to accept the position.

After giving the proposal some thought, Cox replied generally as follows: He was not an aviator, an

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experienced accountant, or qualified in the aviation business except by osmosis through his OPC assignment to CAT. Through this osmosis he had learned a great deal about the aviation business, particularly with regard to the Far East. He had the confidence of the key senior officers of CAT, whom he knew very well, and he felt that they would work well together under him as a team. He knew that Headquarters was very well aware of the deficiencies of the fiscal side of the company. He felt he must have the assurance of Headquarters that it fully understood this deficiency. To a considerable extent, the burden of correcting these deficiencies rested on Headquarters, in that it was their responsibility to locate and recruit adequate personnel who could correct the problems. If Headquarters understood this before he accepted the job, he was quite willing to undertake the assignment.

Cox queried Mr. Wisner concerning the handling of his responsibilities for Agency operations, as separate from management of the airlines. Cox stated that, although as airline president he would be involved in any CIA operation entailing air support, he felt that he could not efficiently discharge his duties as president of the airline and still be responsible for

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all the CIA operations which were being conducted through CAT. [redacted] (b)(1) (b)(3)

Mr. Wisner responded that, as soon as possible, a senior Agency officer would be placed under CAT cover in whatever position seemed advisable to serve as chief of the CIA Mission in CAT. It was hoped that his activities in his CAT cover position could be kept to a minimum. Cox recommended that, pending the arrival of the new Chief of the CIA Mission, [redacted] be given the responsibility of acting chief. Mr. Wisner indicated that this was agreeable to him. (b)(3)

Discussion was then held as to what the status of Cox should be vis-a-vis government employment. It was the feeling of Mr. Wisner and others that Cox would find it almost impossible to comply with government regulations and reporting procedures, and at the same time properly do his job as president of the airlines. It was proposed to Cox that he resign from the Agency and accept true and honest CAT employment, with the salary, expenses, etc. to be handled entirely in accordance with the airline's administrative procedures.

[redacted] (b)(3)

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[redacted] Cox accepted this offer, and (b)(3)
in January 1953 took over as president of CAT.

The major attention of CAT management during 1953 and 1954 was directed to the following problems:

a. Support of the French in Indochina by furnishing aircrews for the operation of C-119's provided by the U.S. Air Force.19/

b. Closely following developments with regard to the new Chinese foreign investment law, and making preparations for a corporate reorganization in order to comply with the law.

c. Renewal of the operating franchise by the Chinese Government in a form other than that given to the Chennault-Willauer partnership.

d. Expansion of CAT activities throughout the Far East area, with particular attention to Southeast Asia. After the peace treaty in the Indochina War, efforts to establish a foothold in the three newly created states of South Vietnam, Cambodia and Laos.

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e. Implementation of proposed [redacted] (b)(1) (b)(3)

f. Continued emphasis on improvement of the financial condition of the company.

In 1953 the DCI directed that a detailed study be made to determine whether the retention of CAT was justified. All the FE branches, the DDP staffs, the Commercial Division, and other components of the Agency participated in the study. In general, there seemed to be a reluctance on the part of most of the participants to take a firm stand one way or the other. Most of the memoranda on the subject outline the pro's and con's of such retention, but do not make any firm recommendations.

On 15 September 1953, FE officers gave a briefing on CAT to many of the major officers of the Agency, including General Charles P. Cabell, Mr. Wisner, Colonel White, Mr. Richard M. Helms, Mr. Lawrence Houston, and other interested Agency officials. At this meeting [redacted] Chief of the FE (b)(3) Division, concluded that, in view of other Agency-owned assets in the Far East, CAT was not essential to continued successful operations in the Far East. His deputy, Mr. Desmond FitzGerald, apparently did not

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entirely agree with [redacted] remarks.[21/] (b)(3)

The Chief of [redacted] did recom- (b)(3)
ment that CAT be retained, with suitable readjustments made in the interests of economy. He was supported in this by Mr. C. Tracy Barnes, [redacted] who wrote: (b)(3)

> a. That political conditions in the Far East do not indicate that this is an appropriate time to relinquish CAT, which has in the past and can in the future offer services including those other than air support.
>
> b. That a reallocation of CIA/CAT assets in aircraft may well benefit both the Agency and the airline.
>
> c. That a continuing effort be made to find and establish an economic working basis between the clandestine requirements, which are placed on CAT by CIA, and the overt business operations of CAT. It appears that CIA may be at financial cross purposes with itself, in that it complains of high costs while at the same time denying income producing business through uneconomic use of aircraft in clandestine operations.[22/]

The Barnes memorandum further suggested that any study of the possible disposal of a proven asset contain the detailed viewpoint and recommendations of the field stations concerned in order to allow Headquarters a more solid basis for study. This had not been done.

On 30 December 1953, the DD/P submitted to the Director, without recommendation, a compilation of

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unfavorable and favorable aspects of CIA ownership and use of CAT.[23/]

On 17 December 1953, however, the DD/P had written a memorandum for his own use listing the points which he desired to make in any discussion he might have with the Director on a decision with regard to CAT. This memorandum indicates that the DD/P strongly favored the retention of CAT, although agreeing that certain re-adjustments to effect economy were desirable.[24/]

The DCI, responding to the DD/P on 8 January 1954, directed that no action be taken on recommendations for liquidation or disposal of CAT. Agency efforts should be to retain and maintain CAT as an Agency instrument, to be continually available for utilization in the national interest.[25/]

The Chinese Government initially granted an operating franchise to Civil Air Transport in the name of the partnership of Chennault and Willauer. This franchise had been renewed almost automatically on the 1st of January each year. On 1 December 1953, however, Chennault and Willauer were officially notified by the Chinese Government that this franchise would not be renewed in 1954.

The reason for this action appears to have resulted

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from Chinese Nationalist indignation and dissatisfaction over the handling of CATI affairs, and especially because of the payment by CATI of [redacted] (b)(3) to the Bank of Taiwan from the funds acquired from San Francisco banks. The Nationalist Government felt strongly that the notes held by it in the CATI purchase should have had priority on any payments made by CATI. So much indignation was shown in the highest circles of the Nationalist Government, including a considerable strain on the normally warm relationship between the Generalissimo and Chennault, that various individuals who were not particularly sympathetic to CAT and to Chennault and Willauer saw an opportunity to step in and make trouble for the airline. Also, the wholly Chinese-owned airline, "Foshing," was actively lobbying against CAT in the hope that it would be granted some of the operating rights to other countries which CAT had arranged.

Headquarters and State reported these developments to Ambassador Rankin in Taipei.[26/] Rankin was instructed to give every assistance possible to insure that the franchise was renewed. Cox met with the Ambassador on or about 8 December 1953. The Ambassador promised that he would do everything possible; it was agreed that

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he would withhold information as to the true ownership of the airline unless it became absolutely necessary to expose it in order to get a favorable decision.

At approximately the same time, CAT was advised that it must submit a plan for company reorganization by 31 March 1954, under the then existing foreign investment law. If CAT had had to comply with this request, it would probably have been forced out of business.

In late December 1953, Mr. Walter Robertson, Assistant Secretary of State for Far Eastern Affairs, accompanied by Admiral Arthur W. Radford, Chairman of the Joint Chiefs of Staff, visited Taiwan. Mr. Robertson informed Agency officials that:[27/] [28/]

a. He had been assured by the Generalissimo and the Foreign Secretary that they understood the complete separability of CAT and CATI.

b. The Generalissimo had stated that he had turned the whole problem over to the Premier.

c. The Premier had assured him that the CAT franchise would be extended for such a period and in such a manner as would enable CAT to comply with the proposed Chinese investment law when it passed.

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Agency officers told Mr. Robertson that the 90-day extension required CAT to reorganize by 31 March 1954, under current Chinese law, and requested that a cable be sent to the Chinese Premier reminding him of his commitment to Mr. Robertson.

Robertson expressed concern over the contradictory statements regarding the [redacted] payment made to the (b)(3) Bank of Taiwan that he had heard from Willauer and Corcoran, and from Chinese officials in Taipei. He then requested that a clarification be obtained from Willauer to indicate under what authority the [redacted] (b)(3) had been unblocked from the San Francisco bank account and paid to the Bank of Taiwan against an old CAT debt to that bank, rather than to the National Bank of China.

Robertson was told of the DCI's decision to retain CAT as an Agency instrument, to be maintained in the national interest. He strongly recommended that Ambassador Rankin be authorized to advise the Generalissimo privately, with only the Madame present, of actual U.S. Government ownership in the airline. It was decided, however, not to take this step.

The DD/P's recommendation with regard to informing the Generalissimo was as follows:

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"Allen -- concerning the recommendation from Walter Robertson which is set forth in Mr. [redacted] Memorandum on CAT, you will recall that we have gone pretty far in the direction of cutting in the Generalissimo but that, short of whatever cat General Merrill may have let out of the bag (no pun intended), we have never actually laid it on the line that CAT is a U.S. Government-owned enterprise. I believe that it was your view the last time we considered it that we should hang on to the proverbial fig leaf until forced to drop it." (b)(3)

F.G.W.

The DDCI, General Cabell, concurred with Mr. Wisner's recommendation.

On 1 February 1954, a memorandum to the DD/P outlined the various facts regarding the [redacted] payment as best known to the Agency.[29/] This memorandum was apparently in response to a cable from Ambassador Rankin stating that even after three and one-half years no agreement existed between CAT and CATI as to which owed money to the other. This memorandum typified the confusion and the conflicting stories that seem to have occurred at the time with regard to payment of various claims.[30/] (b)(3)

The efforts of Ambassador Rankin, ably assisted by Mr. [redacted] Deputy and later Chief of FOA, Taiwan [redacted] were effective, (b)(3) (b)(1) (b)(3)

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and CAT was permitted to operate as usual pending the passage of a new foreign investment law. Major assistance was given to the Ambassador and [redacted] by the Madame and by Foreign Minister George Yeh. (b)(3)

By midsummer of 1954, the new Chinese foreign investment proposal had passed its third reading in the executive Yuan and was virtually insured of enactment. The Chinese Government requested that CAT submit a reorganization plan by 15 August 1954, to comply with this law. The management committee in Washington, after consideration of various proposals, drew up a plan which was sent to the field for presentation to the Chinese. Roughly, it called for the formation of a wholly American-owned company called CAT of China, which would own practically all the physical assets of CAT, and the formation of another company to be called Civil Air Transport. This latter company would be substantially owned by Chinese stockholders, and it would be this company which would "operate" the airline and to whom the Chinese franchise would run. It would charter airplanes from, and have a management agreement with, CAT of China. Arrangements of this kind would satisfy several facets of the problem; that is,

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effective U.S. control and compliance with Chinese laws and international aviation regulations.[31/]

On 20 October 1954, CAT suffered the loss of an aircraft. The C-47, which had been permanently assigned in Bangkok for support of the police unit [redacted] crashed immediately after completion of a training exercise at the Police Camp which was located on the Bay of Thailand some 60 miles south of Bangkok. The pilot, Captain Kaffenburger, although badly bruised and cut, had survived; the other two crew members and several persons in the rear of the aircraft were presumed to have been killed in the crash, or to have drowned thereafter. (b)(1) (b)(3)

[redacted] that they were very much concerned over possible political repercussions from the crash, and urged that Cox come to [redacted] as soon as possible. (b)(1) (b)(3)

On arrival in [redacted] Cox learned that among the men in the rear of the aircraft there had been a Thai police major who was very well known and much liked by the Americans. He [redacted] was a favorite protege of General Phao, the commander of the police forces of (b)(1) (b)(3) (b)(1) (b)(3)

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Thailand. General Phao, who was in Switzerland at the time, had been advised of the crash and the death of the major. He, of course, regretted the accident very much and the loss of the major, but accepted that as part of the inherent risk of the job. Upon learning, however, that the body of the major had not been located, he made it abundantly clear that unless the body, or at least a portion if it, was located, in order that the major might be given a proper burial in accordance with the rites and practices of the Buddhist religion, there would be all kinds of hell to pay. Search procedures were still in process when Cox arrived at the camp. American volunteers with scuba gear had dived in an effort to penetrate the airplane cabin to ascertain whether the major's body was still there, but their best efforts had proved unsuccessful.

Mr. Cox discussed the situation with [redacted] other Americans who were knowledgeable of Thai culture and traditions. All agreed that it was of the greatest importance that at least a portion of the body be located. It was also decided that the expense of chartering a barge with a crane to lift the aircraft, in order to determine whether the body had been pinned under the fuselage,

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(b)(3)

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was justified. This was being arranged when word was received from the police camp that the major's body had been washed ashore some 20 miles south of the camp. Arrangements were made for proper burial.

CAT quickly established a Board of Inquiry, chaired by Grundy, to attempt to determine the cause of the crash. Captain Kaffenburger, although hospitalized with severe bruises and cuts, was able to testify. He stated that an unshielded blue light in the cockpit of the aircraft had temporarily blinded him, and before he could recover full vision the left wing of his aircraft had struck the water. The board, however, concluded that Kaffenburger had suffered an attack of vertigo, a condition in which the individual loses all sense of the true horizon and is not aware of his position in relation to that horizon. It was believed that Kaffenburger, who thought he had the aircraft in a climb, was in fact descending and hit the water before he could regain his equilibrium. Every consideration was given to the captain, including benefits, hospitalization expenses, and the like, but it was decided that he could no longer be employed in a flight capacity. He declined an offer of a ground job and resigned from the company.

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It might be pointed out here that when operating in various parts of the world, particularly in areas where the religious customs and traditions are different from our own, we must take care to insure that nothing is done to violate such customs. At the time there was criticism of Cox for having hurried to [redacted]. After (b)(1) (b)(3) a number of years of experience in the Far East, however, Cox felt that the problem was of sufficient importance to require his personal attention.

By December 1954, Cox felt that he had pretty much "run out of gas." For more than five years, he had been constantly on the go in the Far East, and back and forth from the Far East to Headquarters. During most of this period, he had been responsible for the management of CAT and the conduct of Agency operations. He met with the management committee in Washington in mid-December. It was the general opinion that the time had arrived for Cox to resign and hand the presidency of the airline to someone else. The effective date of resignation was made 1 January 1955.

Two officers of the company, Rosbert and Grundy, merited consideration for appointment to the presidency

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of the airline. Both were excellent senior officers of the company and had been performing well. It is certain that there is no finer chief of engineering and maintenance than Hugh Grundy, but Cox felt that Rosbert, by reason of seniority and because of his position as director of operations and then as vice-president for operations, was more familiar with the overall aspects of the company's activities and had had much more to do with providing support for Agency activities. The management committee, however, decided on Grundy. This promotion was acceptable to Grundy, and he took over the office from Cox on 1 January 1955.

It is possible that one thing working against Rosbert was the fact that he was more closely identified with the old management (Chennault and Willauer) than was Grundy.

Cox agreed to make every effort to insure that a smooth transition of office would take place. There were some rumblings, as might be expected, but all in all the transition went rather smoothly. Rosbert was bitter enough to write a personal letter to the Director, but in time this blew over without further incident.

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During the fall and winter of 1961, the Inspector General conducted an inspection of CAT. A team was dispatched to the Far East to observe operations and interview senior officers of the line. When the team returned to Headquarters, they told the Inspector General that everywhere within the CAT system they had heard references to Cox and his activities while an official of the airline. They felt that it would be helpful in preparing their report if they could debrief Cox on events of the period he had been with the airline. Such debriefing was approved. Mr. [redacted] (b)(3) the head of the IG team, called on Cox and held a lengthy conversation with him with regard to the events that transpired within the airline during the period of 1949 to 1 January 1955. It might be noted that this was the first time Cox had been debriefed on his CAT activities.

After discussions with [redacted], the Inspector (b)(3) General requested that Cox prepare two papers from memory. The first discussed the early history of the Agency relationship with the Civil Air Transport, and the second was concerned with the CNAC/CATC airline litigation. These two papers were prepared in early February of 1962.32/ 33/

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The main objective of the first paper was to make certain that Headquarters understood that, regardless of the long and acrimonious negotiations between the Agency and the old management of CAT, Cox as its Senior OPC Representative in the field when he arrived in Hong Kong in October 1949, had enjoyed a most cordial and cooperative relationship with Chennault and Willauer. They had never allowed the heat of the business negotiations with the Agency to interfere with their complete support of the various Agency operational missions which were required of the OPC mission in CAT.

At times, some OPC objectives ran counter to the General's personal views, but he willingly made requests of the Generalissimo as asked, and furnished considerable support to Agency operations, [redacted] (b)(1) (b)(3)

Willauer had been completely cooperative. Admittedly, at times he had to be restrained since he was the type of person who could come up with an idea a minute, but he was always amenable and obedient to carrying out the instructions of OPC, later DDP, as transmitted to Cox. This aspect of the operation was stressed because it had become rather evident that Agency attitudes toward Chennault and Willauer had been much colored by the difficulties encountered in

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negotiations for the purchase of the airline and CNAC/CATC litigation, while their completely cooperative attitude in the field had been disregarded.

The second paper was a chronological history of the CNAC and CATC airline litigation as seen in the field without the benefit of knowledge of a great deal of the maneuvering that had been taking place at Headquarters. The point was made that in retrospect it was regrettable that the Agency had not assumed responsibility for the operation at the very beginning, as had been strongly recommended by the field.

It was with a great deal of regret that Cox left the airline and the area. He had enjoyed the complete cooperation and the friendship of practically everyone in CAT, and had formed many friendships outside the airlines. He was satisfied, in leaving the airline, that it was in excellent operating condition, and that the improvement being shown on the fiscal side of the company would continue and would be satisfactory to the Agency officers who had responsibility for the CAT project. Although avoiding direct contact with CAT since his resignation, and in writing of this history, Cox is amply aware of the splendid performance by CAT over the past years, particularly in support of national

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policy in Laos and South Vietnam, and in other associated projects [redacted]

(b)(1)
(b)(3)

CIA/CAT Field Accounting

This section of the paper will deal with the accounting procedures and problems related with the OPC Mission established under CAT cover in October 1949. A factual account of the actual field conditions encountered by this OPC Mission will be begun here.

[redacted]

(b)(1)
(b)(3)

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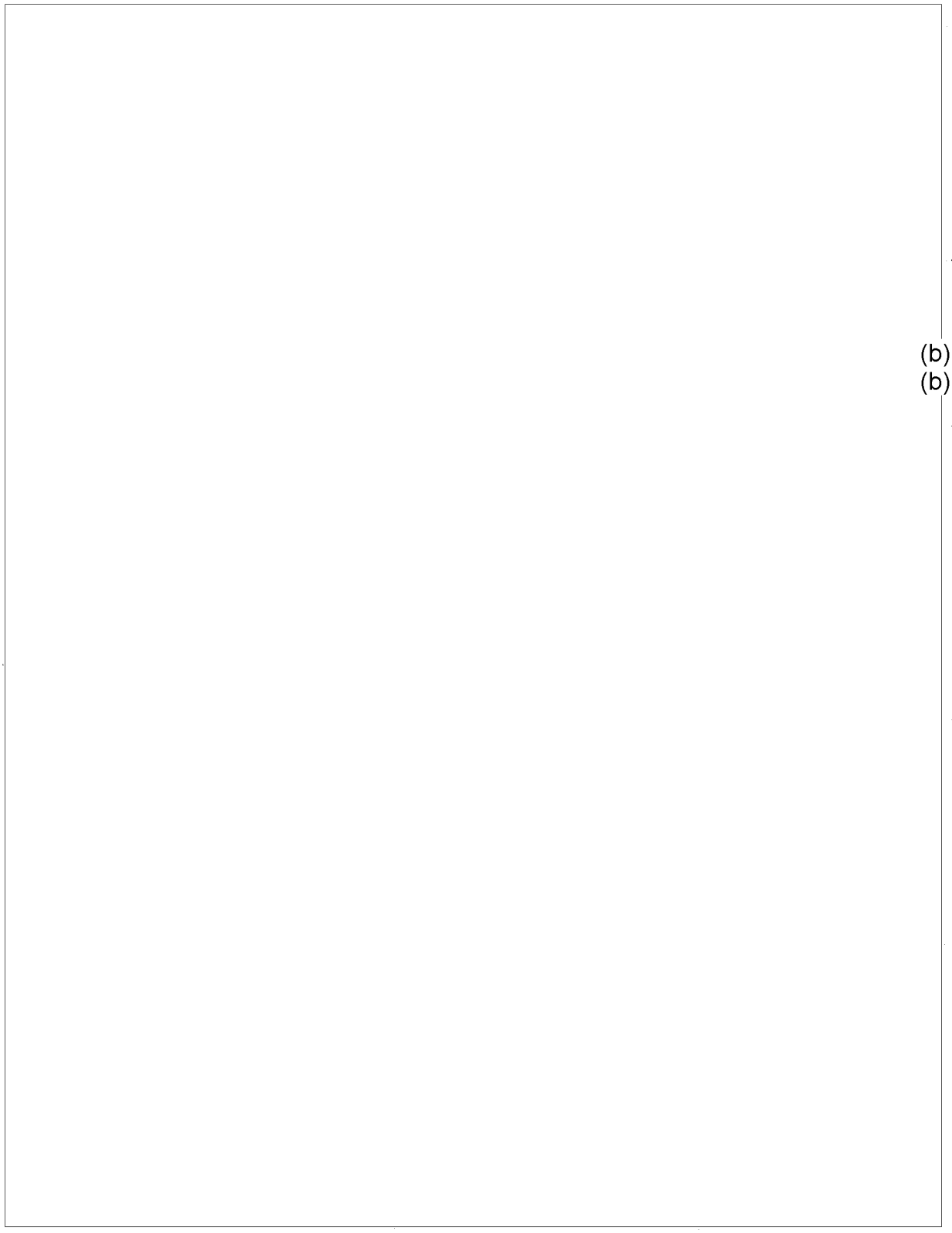

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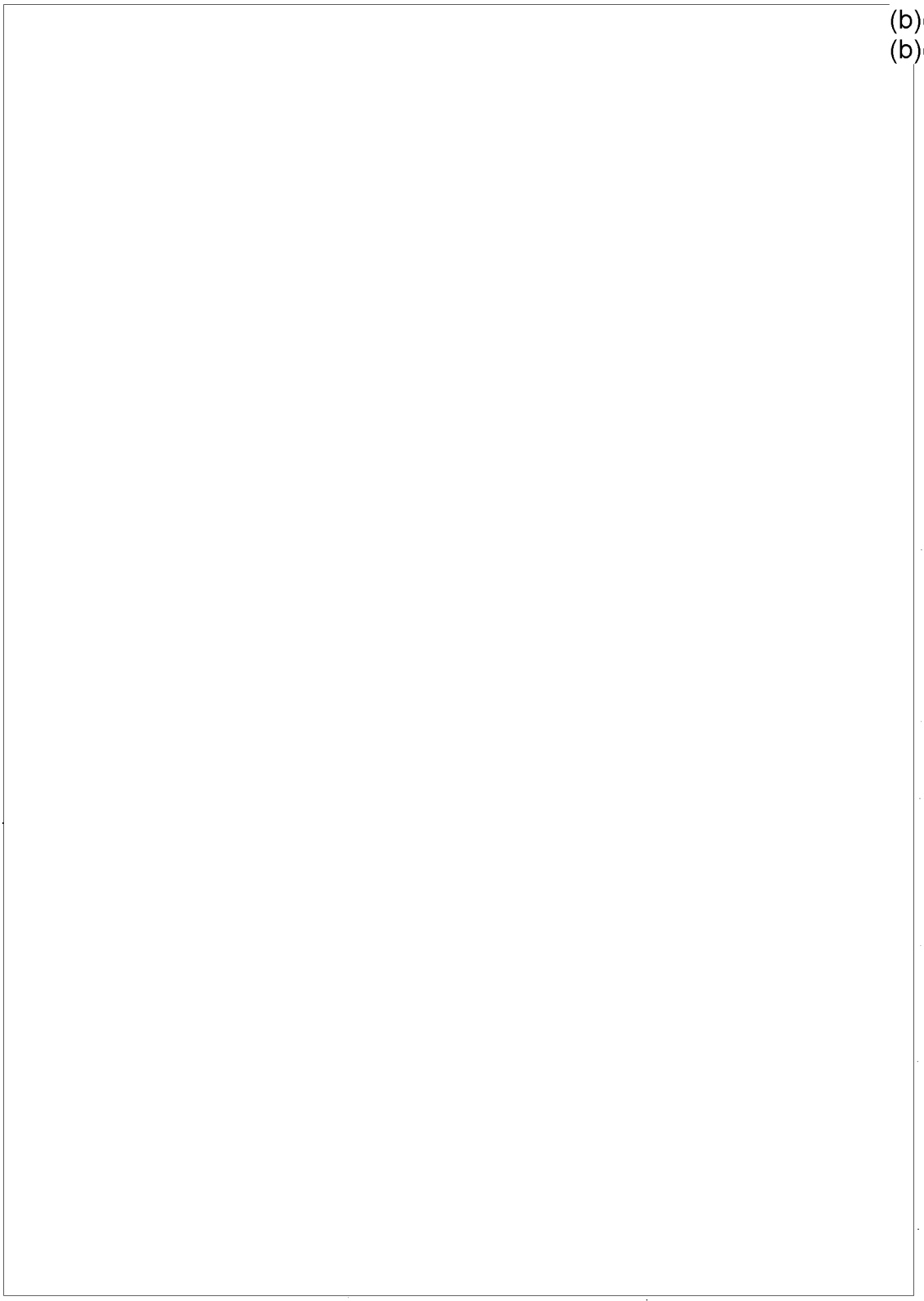

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(b)(3)

Cox was recalled to Headquarters in January 1951, in order to be briefed on the major programing which had just been approved in support of the effort in the Korean War. He was requested by the Finance Division to try to reconstruct, insofar as possible, the expenditure of funds that had been advanced to him. Several

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days were spent in a hotel room, and with the assistance of the case officer and a finance officer, every effort was made to reconstruct these accounts. At the conclusion of one session, the finance officer remarked that it was difficult to understand why Cox had so much difficulty, whereas there was another OPC agent in the Far East who accounted for funds so rapidly that the Finance Division had not yet received the T/A charging him with the funds which he had spent. Cox queried as

(b)(3)

[redacted]

*At that time the Deputy Comptroller, Mr. Emmet Echols, wrote a memorandum to ADPC about the apparent disregard on the part of OPC personnel in fulfilling the responsibility for the operational administration of their project. It discussed the resultant inability or

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From the viewpoint of the field and in consideration of the fact that it took fifteen months before a minimum of administrative assistance was supplied to the OPC Mission in CAT, it would seem to be just as fair to state that Headquarters consciously or unconsciously ignored administrative and financial requirements. Cox was delinquent in regard to administrative expenses largely because the tempo of activities and operations was such that it was almost impossible to keep an orderly running record of the expenditures involved.

---

failure to comply with the financial regulations of the Agency, with specific mention of the activities of Cox [redacted] and of the CAT proprietary project.[34/] (b)(3)
Echols' memorandum is critical of both Cox and of the FE Division for failing to provide the administrative support required in order to comply with Agency fiscal regulations. It is a fair memorandum and is sympathetic to the operational problems involved in trying to meet such compliance. In reviewing the memo for the first time, the writer recognizes the fairness of the criticism but (and possibly in self-defense) would like to have had the opportunity to reply at that time. The writer would do so entirely without rancor, because he has known Echols since North Africa in 1943, and has always received fair and considerate treatment from him on a number of matters that have been within his purview. Echols does make one statement: "I am convinced that Cox [redacted] consciously or unconsciously adopted (b)(3)
a policy of optimum operational security and accomplishment knowing that he was ignoring his administrative and financial responsibilities. This decision was apparently concurred in by the Chief, FE."

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In the summer of 1951, [redacted] now (b)(3)
deceased, a staff officer of the Finance Division, accompanied the [redacted] audit team to the field. (b)(3)
[redacted] he had been re- (b)(1) (b)(3)
quested to review the nature of the administrative expenses and other expenditures of the OPC Mission in CAT. During the months that he was in the field he had ample opportunity to be able to estimate the level and justification of administrative expenditures.

Finally, in December 1950, [redacted] (b)(1) (b)(3)
[redacted], a junior officer who had had no (b)(3)
field administrative experience, had been hurriedly briefed and rushed to the field in response to urgent pleas for some administrative assistance. Despite his inexperience, which meant that his reporting did not always fully comply with Agency regulations, [redacted] (b)(3)
did an outstanding job. He took advantage of the assignment [redacted] to begin the study of the (b)(1) (b)(3)
Chinese language, and currently is an extremely valuable Agency officer with knowledge of Chinese that few Americans possess. He maintained the records as best he could and serviced the Mission in every way.

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In early 1952, Cox again returned to Headquarters to work with Finance Division representatives on accountings for Agency funds. At the time (due credit had been given to payments made in support of the mainland forces) the total outstanding advances to Cox were (b)(3)
slightly over [redacted] of which about [redacted] were (b)(3)
in claims approved. Another [redacted] were listed as (b)(3)
claims pending. A review of claims showed that in almost every case they represented approved expenditures and Headquarters had in its possession receipts to show that the funds had been advanced to the designee approved to receive such advances. The accounting showed that a balance of [redacted] was due (b)(3)
Cox.

Cox, working with [redacted] had developed an esti- (b)(3)
mated administrative expense based on the cost of living, cost of travel, of entertainment, etc. which was entailed in assignment to CAT. Complications arose in that, on occasion, various expenses had been borne by the airline. Admittedly this was an estimate, but
[redacted] as representative of the Fiscal Division and (b)(3)
after several months of personal observation, concurred in the figures arrived at. At that time,
[redacted] pointed out that he did not consider that it (b)(3)

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would be proper to recognize a credit due to Cox, which was based on an estimate of expenditures as against detailed accountings. Cox did not object to [redacted] opinion, and in fact concurred with it. A (b)(3) readjustment of accounts was made, resulting in a balance of advances not accounted for by Cox in the amount of [redacted]. Cox promptly paid this amount to (b)(3) the Agency, with a sigh of relief that the matter, which had been of constant concern both in the field and at Headquarters, could be considered cleared up.[35/]

While in the process of working out these accounts with the Finance Division, Cox prepared a long and detailed study of all of the problems that had been encountered by the OPC Mission in CAT. This included a report of the problems encountered at every location in which the Mission had been operating, such as costs of living, passport and visa costs, customs clearances, communications [redacted], currency exchange, (b)(3) transportation, entertainment, black exit and entry, and every factor of the environment that would affect Agency personnel who might be sent to those areas.[36/] A review of the study at this late date indicates that it still has a considerable validity.

As [redacted] gained experience and became accustomed (b)(3)

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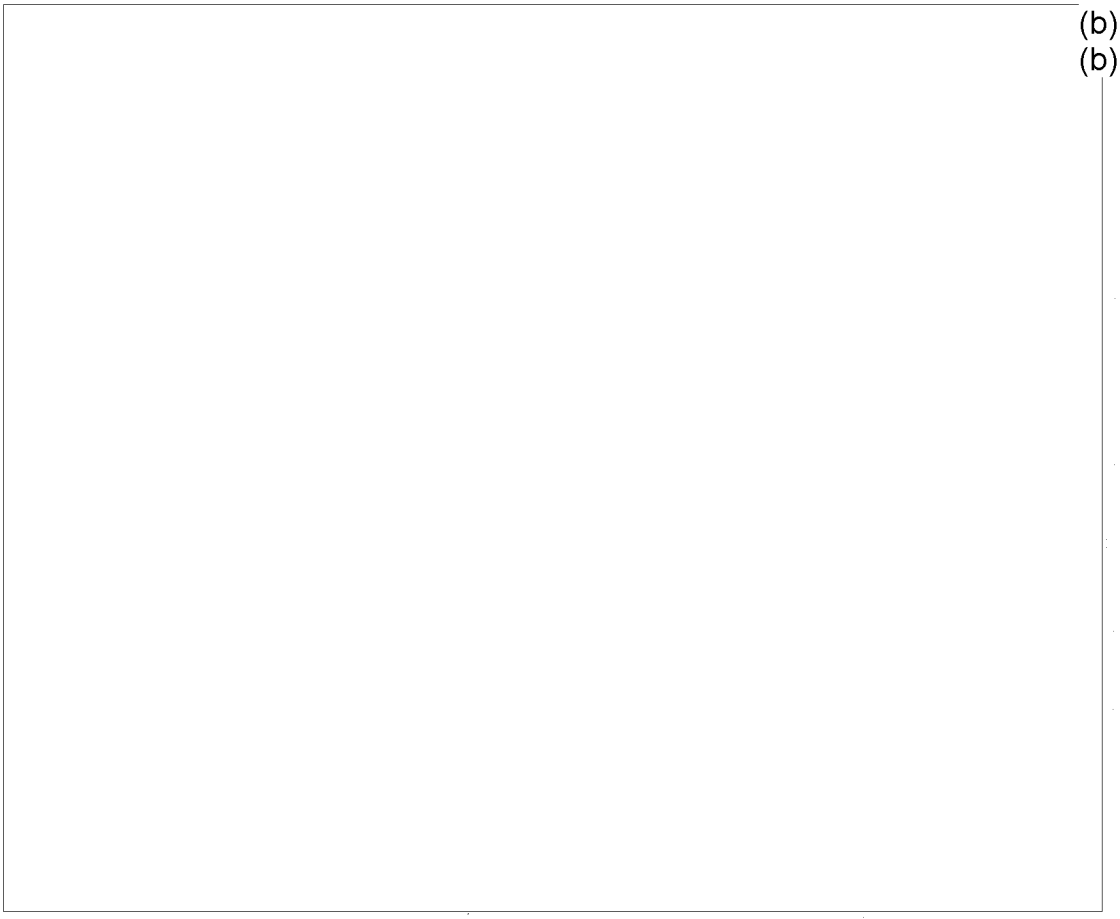
to the requirements of his assignment, the quality of his reporting improved and, although perhaps never perfect by Agency standards, it was indeed adequate for Agency requirements.

(b)(1)
(b)(3)



When the writer assumed the office of president of CAT, it was agreed by all that the most practical solution for avoiding constant problems in complying with Agency fiscal regulations was for him to resign from the Agency and become a straight airline employee. It is certain that this saved many headaches for all.

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Upon return to Headquarters in 1955, he was reinstated at his previous grade, and for a period of two or three years, the monthly personnel record-runs indicated that his date of grade was as per his appointment to the grade in 1950. Then this was adjusted (without notification) to the date of his return to Headquarters in 1955, with the resultant loss of five years of seniority. Procedures should be developed to cover such types of assignment which are fully understood and acceptable to all parties.

Security

Without consideration of Agency requirements, security problems involved in the operation of CAT were tremendous, both externally and internally. The airline operated continuously along the Nationalist-Communist combat lines, often making extensive flights over Communist-held areas. The Chinese Communists were extremely active, attempting to penetrate the three Chinese airlines, CNAC, CATC and CAT; eventually they were able to induce the defection of most of CNAC and CATC personnel. The defection of even a part of CAT personnel would have been a tremendous propaganda triumph as well as a material plum for them. CAT

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management, therefore, had a major problem in assuring the loyalty of its employees, and in defending itself against sabotage and penetrations from without. With the entry of the Agency into the CAT picture, the security problem became much more complex. Agency interest had to be shielded from all external interests, as well as from almost all of the CAT employees, who in October 1949 numbered about 2,000.

When Cox arrived in Hong Kong on 8 October 1949, he ran at once into a number of security problems which could easily have jeopardized the ability of the Agency to support CAT and to utilize its cover for other activities.

First of all, the Chief of Security in CAT was an old Far East hand and British subject, Mr. William Parker. He had excellent contacts with the Hong Kong police and with immigration and customs authorities, and he was doing an apparently excellent job in the overt aspects of the CAT security problem. It had to be accepted that he was at least an informant, if not an agent, of British intelligence. At the same time, precipitously removing him from his post might have seriously endangered relationships with the Hong Kong authorities which at that time were vital to the

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operations of the airline. It was necessary that Parker's attention be diverted from activities that might be carried on in the Agency's behalf under CAT cover. Fortunately, the USAF Air Attaché in Hong Kong at the time, Colonel William Heston, was an extremely enthusiastic if not eager-beaver type, who requested permission to use Parker's services in developing intelligence on conditions on the mainland. Permission was granted and Colonel Heston kept Parker so busy that he had little time to observe Cox's activities or those of other people in CAT who were working on Agency requirements.

Among the first persons encountered by the writer on arrival in Hong Kong was Mr. Duncan Lee, who was representing Corcoran's law office in winding up various commercial activities and transactions that were then defunct because of the Communist takeover of the mainland. Lee had been with the OSS in China in 1945 and was well known to the writer. Lee had married before the war, and his wife and mother-in-law, both British, were considered to be card-carrying Communists. At any rate, there was no question but that Lee, as close as he was to CAT management was unclearable. On his behalf, it must be said that Lee's actions

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were most circumspect. He did not intrude, and contacts were kept to the minimum required for maintenance of cover. Chennault and Willauer were both advised of the concern with regard to Lee's presence, and they did their best to assure that Lee was not aware of any Agency activities. It should be noted that, over a period of years, Lee went through very trying times. After long efforts, he regained his American passport, which had been suspended. Cox feels with reasonable certainty that he was never disloyal to the United States.

Introduced into the airline as a special assistant to Chennault and Willauer on political and military matters, Cox experienced no particular difficulty in gaining acceptance by the airline as a whole. By operating in the shadow of Chennault and Willauer, he was able to pursue Agency matters such as support to Pai Chung-hsi and other military leaders without arousing suspicions that such activities were anything other than work for the airline.

Particularly difficult security problems arose at the time of the defection of CNAC and CATC in early November 1949. CAT personnel physically and violently blocked (by driving trucks on the runway, slashing

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tires, etc.) the attempt to fly 71 aircraft from Kai-tak Airport in Hong Kong to Communist-held airfields on the mainland. The Hong Kong authorities took action to freeze all CNAC and CATC assets in the Colony, but permitted them to remain in the physical possession of the Communists. It shortly became evident that the Communists were smuggling vital accessories, such as carburetors and magnetos, back into the mainland as rapidly as they could. Through Parker and his security office, a guard system was organized to prevent the evaporation of all the assets. Some funding by the Agency was required for these efforts, since at that time CAT was in an extremely poor financial position.

Another major security problem lay in the fact that there was a considerable time lag in getting the necessary operational clearances for use of personnel in the field. On a selective basis, members of CAT who apparently were in a position where they might become involved in, or become aware of, Agency activities were submitted for clearance. At that time the Office of Security was overburdened, because of requests for clearances from the rapidly expanding OPC and because of the Korean War. As rapidly as possible, clearances were requested on the CAT pilots, mainly those who might

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become involved in Agency operations connected with the war. When the decision was made to activate the [redacted] Captain Robert Brongersma (b)(1) (b)(3) was the CAT pilot [redacted] which had been requested because he (b)(1) (b)(3) had been assigned [redacted] When the decision was made to support [redacted], (b)(1) (b)(3) the Agency was not able to supply any personnel to [redacted] although [redacted] (b)(1) (b)(3) (b)(1) (b)(3) One of the ground operations managers volunteered to accompany [redacted] (b)(3) (b)(1) (b)(3) forces, moving overland into Yunnan, and then, after being thrown back, returning overland to Thailand. At a much later date, when it was desired to use his services again to operate a winch in the rear of a plane on a pickup mission, Headquarters suddenly advised [redacted] that this individual was unclearable. (b)(1) (b)(3)

When resupply operations [redacted] it was desired to initiate the operation by flying three aircraft on the same day. It was necessary to have sufficient personnel in the rear of the aircraft to dispatch the cargo. Again there were not enough cleared personnel available to do the job, and it was necessary (b)(1) (b)(3)

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to bring in other Americans, whose loyalty and character were vouched for by CAT personnel [redacted] It (b)(1) (b)(3) was fortunate at the time that Headquarters understood the problems of the field; no reprimand, which would ordinarily be received for such unauthorized use of personnel, was ever given.

Although satisfied as to the overt aspects of CAT security, there was naturally considerable concern over the protection of the Agency interest. This was the subject of numerous cables and dispatches, and of discussions with Headquarters officials. An Agency security officer was dispatched to the field in 1950, but he proved unsuitable for the assignment, and after a month or two had to be transferred out of CAT. [redacted] (b)(1) (b)(3) Initially, and as was true in too many instances, he arrived with prejudiced opinions on the airline and its

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personnel, based on what were apparently negative briefings in Headquarters. After having had the opportunity to look around and judge for himself, he revised some of his opinions and became a most trusted and valuable assistant to Cox. In short order, he established records and files, particularly for clearances, so that when it became necessary for certain airline personnel to be involved in support of Agency operations, it was possible to insure ahead of time that necessary clearances had been obtained. Personnel employment application forms were revised to insure that necessary information was provided for obtaining clearances. As more and more CAT people were involved in the numerous clandestine operations that were being undertaken, [redacted] continuously held meetings with pilots and other persons involved, in which he stressed the need for secrecy and security. (b)(3)

[redacted] expressed his concept of his responsibilities as follows:[37/] (b)(3)

> "I explained my security policy as I would execute it to Mr. Cox in this way:
>
> a. Provide security know-how for all commercial phases of CAT.
>
> b. Provide personnel security standards for CAT.

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> c. Create and direct an investigative unit for investigation of CAT applicants, of whatever nationality, and in all areas.
>
> d. Investigate internal security violations of a criminal nature. At the same time, for the operational Mission as Operational Security Officer, I would: (1) provide professional know-how to any operation so that the operation or assignment could be carried out as securely as the circumstances provided; (2) assist in any way possible with any operational assignment that I could; (3) set up clearance procedures to expedite approvals or clearances for any individual within CAT, associated with CAT, or otherwise employed, used or needed."

It is interesting to note that ADPC, who made an inspection trip through the Far East with ADSO in 1952, made the following comment:[38/]

> "7. Cover and Security was found to be so thin as to be practically non-existent (except in the case of CAT which strangely enough seems to be universally accepted as a Chinese not a U.S. organism)."

By and large, CAT cover survived as well as it did because as much attention as possible was paid to security and tradecraft, and because of the apparently reckless and cowboy nature of its operations. CAT flew where and when no one else would be flying. CAT, particularly in view of Chennault's close relationship with the Generalissimo, often seemed to be acting

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counter to U.S. policy and in support of the Nationalist Government. Despite the seeming recklessness, CAT maintained a safety record that is probably unparalleled by any major airline in the world.

There were, of course, minor problems. Incentives for smuggling throughout the area were great. During the period that Parker was Chief of Security, the Hong Kong authorities made the largest single confiscation of raw opium that had been made in the history of the Colony. Two CAT mechanics at Kunming had crammed raw opium into the nacelles behind the landing lights of an aircraft. The CAT security division tipped off the Hong Kong police, and after the plane landed the material was seized. Naturally, there were no repercussions against the airline from the British authorities. The mechanics involved were terminated, since there was no power of arrest by Americans in China. From time to time, other such attempts at making a fast buck were encountered but were handled in routine fashion.

There were other more specific and important problems which probably merit some attention.

In late 1950, a CAT C-47 had been assigned to the [redacted] It was normally used (b)(1) (b)(3)

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in the parachute training of police units that were a part of the [redacted] and in the placement (b)(1) (b)(3) and recovery of police patrols operating in the border areas of the country. Captain Robert "Dutch" Brongersma had been assigned as the pilot for this activity. After every 1,000 hours of operation, he would fly the aircraft to Tainan via Clark Field, Philippine Islands, for maintenance, after stopping off at Hong Kong en route. He was approached in Hong Kong and in Bangkok by certain persons who sounded him out on his willingness to smuggle gold from Clark Field to Hong Kong. He reported this to Cox [redacted] suggestion, (b)(3) the matter was discussed with the Department of the Treasury representative in Hong Kong who requested that Brongersma continue his discussions and stall off any actual delivery as long as possible. This was done, but a point was finally reached at which Brongersma advised that the tenor of his discussions was such that he had to either "fish or cut bait." It was arranged with the Treasury representative that Brongersma would undertake a delivery, with surveillance being the responsibility of the Treasury representative. The delivery was made and Brongersma was paid off in an amount approximating $700. The money was promptly

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turned over to Cox who tried to deliver it to the Treasury representative. The latter stated that he had no authority to accept such monies. [redacted] advised (b)(3) that the Agency could not accept the funds. Cox thereupon appointed a special committee consisting of Mrs. Whiting Willauer, Mrs. Lillian Chu, and Mrs. Cox to expend the funds on worthwhile charities. The money was spent in the name of CAT in the construction of refugee housing and in donations to such charities as the SPCC and the SPCA.

Unfortunately, an entirely different situation developed with regard to Brongersma. [redacted] (b)(1) (b)(3) He was involved in a number of business ventures and approached Brongersma, who of course he knew well, with a proposition for participating in a private investigation enterprise. As explained at the time, the main source of business would be from various insurance companies who were being hard hit by suspected cases of barratry involved claims by various shipowners, largely Chinese, against the insurance companies. [redacted] had an excellent (b)(3) relationship with General Phao (Chief of the Thai

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Security Forces) and could arrange part-time employment of Thai police personnel on their off time. The matter was referred by Cox [redacted] and since it was decided (b)(3) that Brongersma's investment in this enterprise did not interfere with his airline duties or conflict with Agency interest, the investment was approved. (At that time new CAT regulations required that all business ventures by CAT personnel in the Far East had to be approved by CAT management.) Apparently, at a later date, [redacted] felt strongly that the inves- (b)(1) (b)(3) tigative agency was being used for surveillance of [redacted]. Brongersma's clearance (b)(1) (b)(3) was cancelled, and Headquarters ordered his termination from the airline. It was only after years of effort that Brongersma was cleared. His efforts since then, in small plane operations and resupply operations in Laos, have more than vindicated the reinstatement of his clearance.

Other security responsibilities included a watch for excessive customs charges against CAT and CAT personnel, which often involved "kickbacks" to a CAT employee, and an effort to insure that employees' off-duty conduct met acceptable (not prudish) standards. The temptation to take advantage of the "black market"

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currency manipulations was ever present. CAT flight personnel, constantly passing in and out of customs in the various airports of international entry and exit, quickly developed an easy air of familiarity with the customs officers, and their effects received either little or no inspection.

(b)(1)
(b)(3)

Charges -- actually more rumors than charges -- were heard during the Korean War that CAT crews were bringing liquor on their flights into Air Force bases and selling it to the GI's at a high price. A little of this may have been going on, but in point of fact, CAT flew large quantities of liquor into and within Korea, but these were legitimate shipments properly manifested to officer's clubs, PX's, etc.

Another of the more important responsibilities entrusted to was the establishment and maintenance of good relationships with the local security authorities. was particularly effective in this respect with the British authorities in Hong Kong, and with Mao Jen-fang and other officials in Taiwan. (b)(3) (b)(3)

In undertaking any venture such as the Agency covert ownership and utilization of CAT, the establish-

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ment of an effective internal security branch should be of the highest priority. In the case of CAT, it was more than three years before effective security measures began to be taken.

Communications

At the time that Cox departed for the field in late September 1949, there were no OPC Stations in the Far East, and he had the rather vague title of Chief of the OPC Far Eastern Mission.

(b)(1)
(b)(3)

On the evening prior to Cox's departure for the Far East, Mr. Lloyd George, Chief of the FE Division of OSO, kindly invited him to his home for a farewell drink. Cox explained to Mr. George that his only concern with the communications system was that it could

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(b)(1)
(b)(3)

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(b)(1)
(b)(3)

In the heat of the summer their living conditions were unbearable. Atmospheric conditions affected the reception of incoming cables. Extensive garbles were frequent and at times could have led to costly misinterpretations of Headquarters directions. Over the years, however, technical improvements and better facility arrangements greatly improved communications.

(b)(1)
(b)(3)

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[redacted] It was perfectly natural (b)(1) (b)(3)
for Americans and other foreigners of all sizes, shapes, and description to meet at the club in the evening for drinks, gambler's dice, and dinner. It was relatively easy for Cox to sit occasionally at the bar [redacted] (b)(1) (b)(3)

This system worked well, indeed, [redacted] (b)(1) (b)(3)

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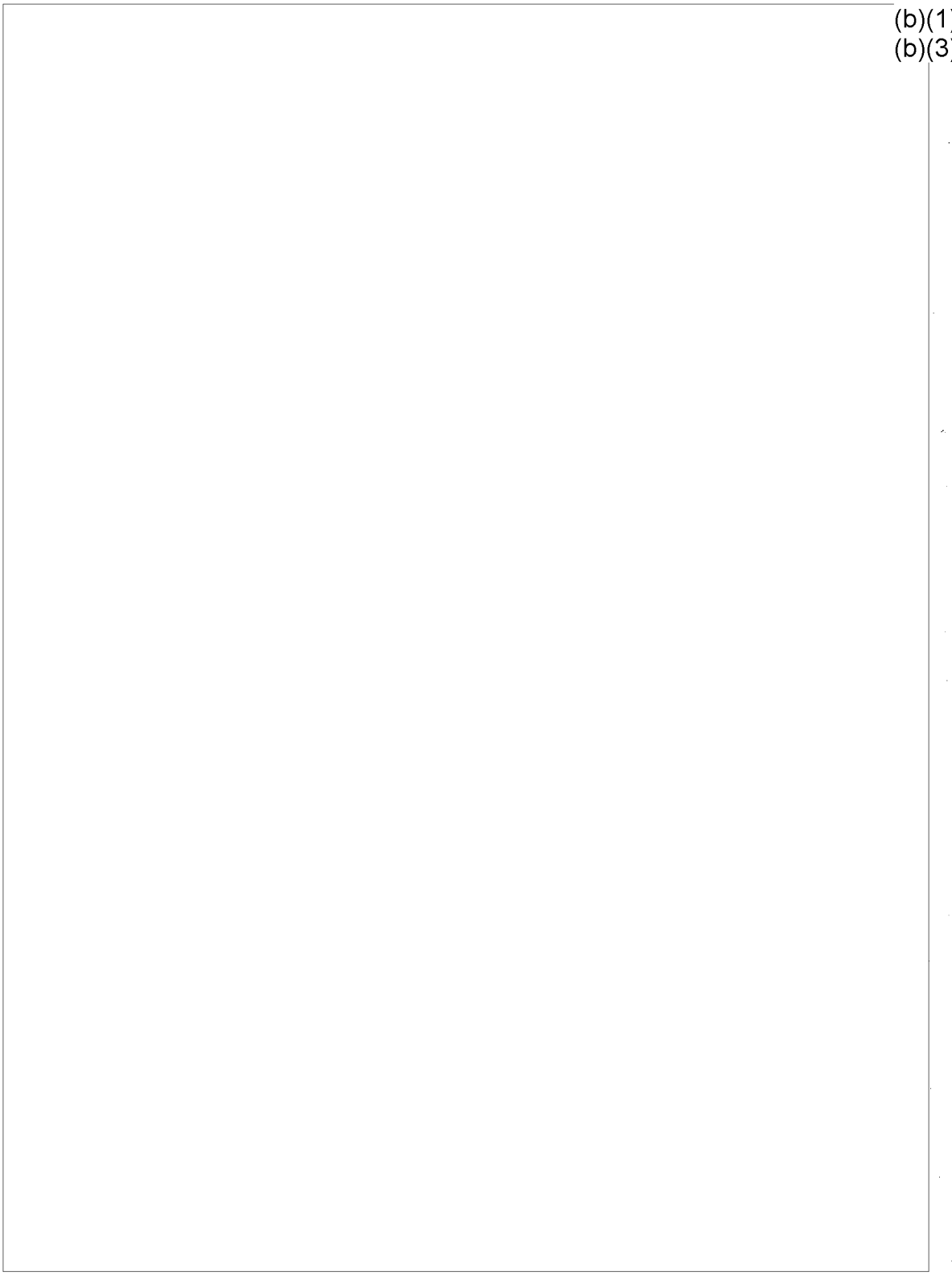
(b)(1)
(b)(3)



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[redacted] (b)(1) (b)(3)

Crises arising in the area, of which there were more than several, required almost continual travel on the part of Cox, ranging from Korea in the north to Bangkok in the south. During these periods, it was impossible for Headquarters to ascertain to which [redacted] in order to (b)(3)

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be received prior to his departure for some other [redacted] (b)(3) It was often necessary, therefore, that priority cables be sent [redacted] hoping that (b)(3) one of them would be able to make delivery. It was unfortunate that this could not be avoided since, of course, it increased the communications traffic load [redacted] This was particularly true when the [redacted] were started simultaneously, and during the (b)(3) (b)(1) (b)(3) crash C-119 operation in 1953 and 1954.

It should also be noted that communications equipment in the Far East was not adequate to establish a (b)(1) (b)(3) communications base for the [redacted] therefore, [redacted] (b)(1) (b)(3) Also, the [redacted] was conducted on a shoestring insofar as Agency personnel being made available (b)(1) (b)(3) but the [redacted] (b)(1) (b)(3) The team maintained regular communication with the [redacted], keeping (b)(1) (b)(3) the [redacted] advised as to the location of the forces at any given time, the progress being made, and (b)(1) (b)(3) the plans for future action. When [redacted] were (b)(1) (b)(3)

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forced back out of Yunnan by the ChiComs' reaction to their penetration, the team returned to Thailand again on foot. The operator came through the operation minus a few pounds but in good physical condition, and carried out his assignment very creditably.

Establishment of the [redacted] (b)(1) (b)(3)

At the time of the discussions in Headquarters in late 1952, Cox advised the DD/P that if he accepted the office as president of the airline he could not effectively carry out his responsibilities as Chief of the DD/P Mission in CAT. He was assured that as rapidly as possible a senior and experienced Agency officer would be integrated into CAT to assume these responsibilities. As an interim measure, Cox recommended that [redacted] be assigned as acting chief. (b)(3)

[redacted] was well integrated in the airline, already stationed in Hong Kong, and conversant with the Agency operations being carried on under CAT cover. This was acceptable to the DD/P. (b)(3)

[redacted] had done an outstanding job at Okinawa (b)(3)

[redacted] He had (b)(1) (b)(3)

been assigned there by CAT as station manager, and had developed excellent contacts and rapport with the

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American military authorities controlling the island. He operated at both Naha, the commercial airport, and at Kadena, the U.S. Air Force Base, and had been transferred to Hong Kong to assist Cox who was thoroughly tied up in trying to handle both CAT management and Agency operational activities. He was assigned as Traffic and Sales Regional Director for Southeast Asia, headquartered in Hong Kong. [redacted] had an extremely (b)(3) engaging personality, a good deal of common sense, and [redacted] (b)(1) (b)(3)

A few months later Headquarters advised that they desired to move [redacted] (b)(1) (b)(3) He had had previous airline experience, and therefore his integration into CAT did not present any particular problems. It was felt, however, that instead [redacted] (b)(1) (b)(3) in order to familiarize himself with the airline and to gradually become acquainted with the activities being carried on under CAT cover. This was

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acceptable to Headquarters and [redacted] integration into the airline was accomplished rather readily. (b)(3)

[redacted] and his family returned to the States on home leave in June 1954. Shortly afterwards Cox was suddenly advised that [redacted] would not be returning to the field and was being terminated from Agency employment. [redacted] had not given any indication whatsoever of his intention to resign, and had left all his personal effects and kept his home in Hong Kong. Thus, this came as a complete surprise. At first Cox was determined to challenge the decision in view of the excellent and loyal performance [redacted] had shown while with CAT. However, a hand written safehand letter from [redacted] to Cox begged Cox not to further muddy the waters by taking any action whatsoever. In the light of this request, the whole matter was dropped. (b)(3) (b)(3) (b)(3) (b)(3)

During the same year, a similar experience occurred in respect [redacted] had served for several years in CAT, and although not a heavyweight in terms of conducting operations, he had been valuable as a leg man, courier, public relations man, etc. He, too, had returned to the States on home leave never to return to the field. (b)(3)

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In August 1954, [redacted] reported to Hong Kong in order to be assigned responsibilities as special assistant to the president of CAT, [redacted] was very well known to Cox and to many others in the airline, [redacted] several years. [redacted] after several years with the Government during the Korean crisis, upon the cessation of hostilities he had decided to return to civilian life; CAT had become aware of this and, because of the closely cooperative relationship which had developed [redacted] the airline made an offer of employment to him. This story, of course, probably raised a few quizzical eyebrows but there was no comment. [redacted] arranged with Cox [redacted]

As rapidly as possible, all of the residual Agency activities which Cox had been carrying on were transferred over to [redacted] and his mission. It was Cox's feeling that the cooperation between the [redacted]

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and CAT management was excellent.

It should be pointed out that this kind of arrangement can conceivably raise a number of problems, since, in effect, integrated personnel are working for two bosses, the Chief of Mission and the company management, and have responsibilities to both. Consider the case of [redacted] Chief of Security of CAT -- a very demanding job spread out over a large geographic area (Bangkok to Korea) -- [redacted] Fortunately all involved were friends of years standing, and no particular problems arose. (b)(3) (b)(1) (b)(3)

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II. CONCLUSIONS REACHED

Value of CAT as an Operational Asset

CAT Support of Agency Requirements

In April 1955 the Far East Division was requested to prepare a brief summary of the value of CAT as an operational facility. This summary was to be used for the purpose of briefing the DCI, who was to attend a meeting of the CAT board of directors on 25 April 1955.

In submitting the summary, the Chief of FE Division noted that on 14 September 1953 his office took the position that, strictly from a CIA operational point of view, sufficient justification was not present for the continuation of the airline in the Far East. Nevertheless, the National Security Council ruled that CAT was a desirable transportation instrument and that it was in the national interest to have this airline in the Far Eastern area. He indicated that the division viewpoint of 1953 remained unchanged.

The FE briefing can be summarized as follows:[40/]

Covert Transportation in Support of CIA Activities

a. In the past three and one-half years, CAT had been used to effect the movement of

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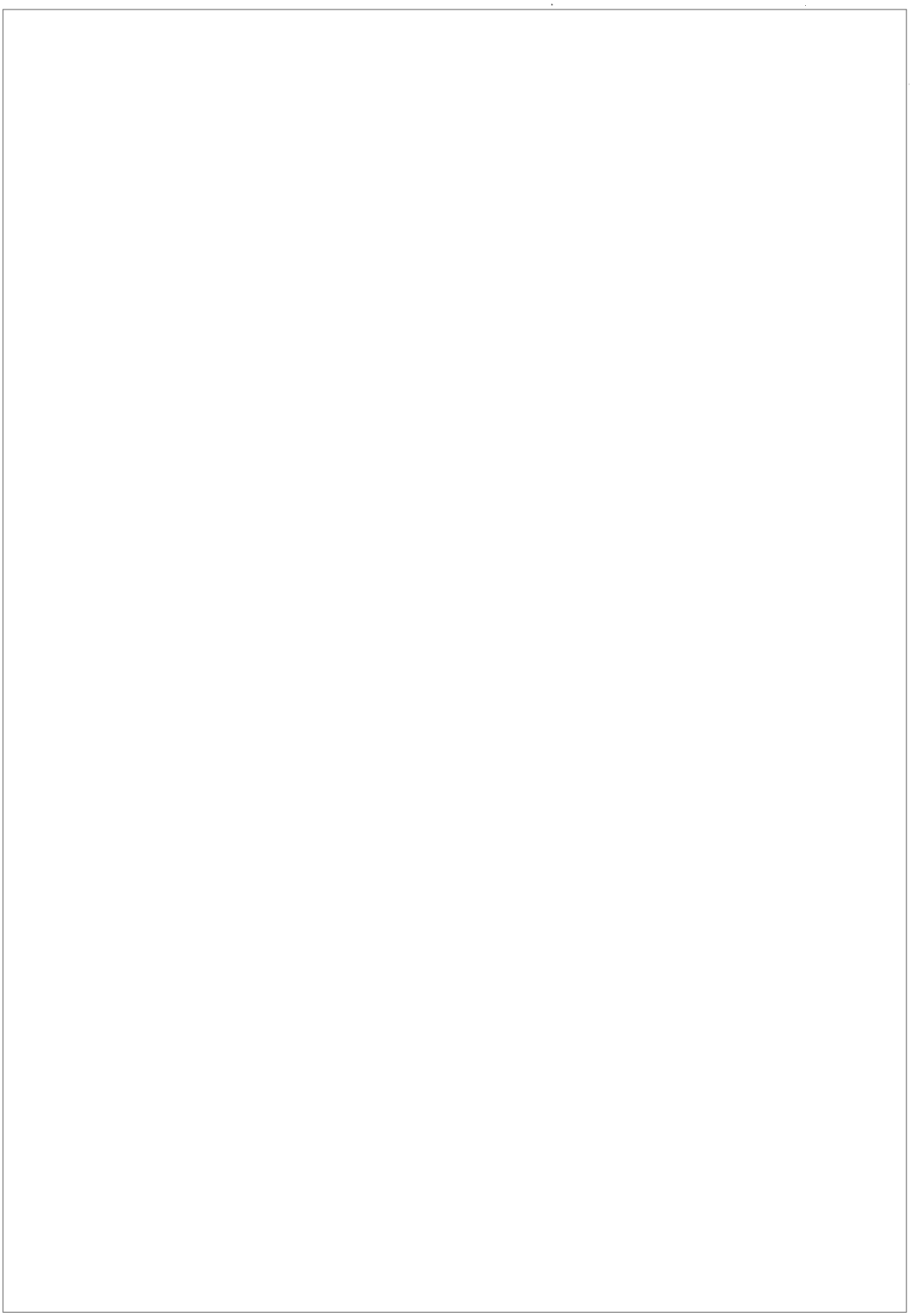
(b)(1)
(b)(3)



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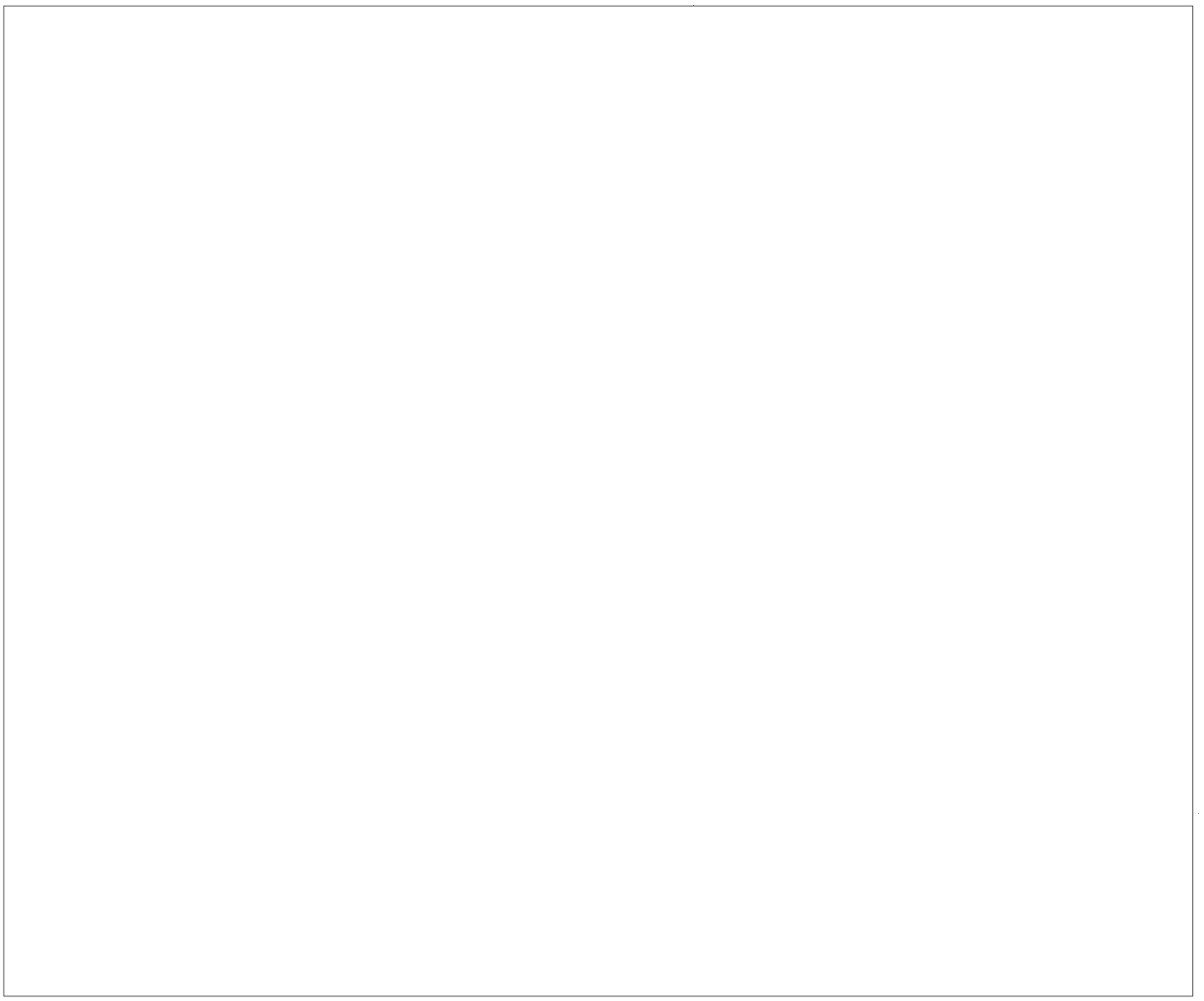
d. While the level of requirements for covert transportation service at the time of the report was not large, a change of circumstances, particularly in the cold war of the Far East, could alter the situation quickly. CAT therefore represented a considerable insurance in having immediately available flexible and capable support.

(b)(1)
(b)(3)



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(b)(1)
(b)(3)

CAT as an Instrument of National Policy

a. In both 1953 and 1954 CAT, at the request of the U.S. Government, contracted with the French military command in Indochina to furnish crews flying USAF C-119 aircraft on loan to the French. The operations in 1953 were successful in assisting the French to turn

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back the invasion of the Viet Minh in Laos. In 1954 the operation was begun again on 10 March and continued after the fall of Dien Bien Phu until 30 August 1954.

b. In addition to the operations of the C-119 aircraft, on 19 August 1954, CAT contracted with the French to provide a minimum of 1,000 flying hours per month using its own C-46 type aircraft. On the termination of this contract on 5 October 1954, CAT had provided a total of 2,575 flying hours.

c. Ever since the partition of Incochina into three separate states, CAT has been making every effort to extend its services into Cambodia and Laos. If CAT is successful in the future, the Agency will obtain considerable operational advantages in these areas, including unofficial cover for Agency employees and unattributable transportation.

In the case of Laos, the opposition of a monopoly of French interests was so strong that we did not expect that CAT would be able to make much progress for the time being. In Cambodia, also, progress was extremely slow, but

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the line was more hopeful that it would be able to obtain an entry there.

Other Activities

Other briefing papers prepared for the Director were:

a. A report on the status of the commercial operation which, in addition to the fiscal and operational figures, included a report on the company reorganization plans which had recently been effected or were under way.

b. The place of the airline in war planning was discussed. This indicated that war planning for the utilization of CAT in case of the outbreak of hostilities was still at the discussion stage at the Pentagon and with CINCPAC. It was stated, however, that CINCPAC did believe that the experience and knowledge of CAT flying personnel were unique. The maintenance abilities of CAT also were of considerable importance.

c. A discussion of the BOOKLIFT contract. This outlined the advantages of the contract to CAT both in terms of cover and as a source of revenue. It noted that there

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were certain complications since the contract was subject to audit by regular Air Force auditors, and that there had been some speculation among the USAF audit staff as to certain of the peculiarities of the CAT contract. Additional negotiations had been conducted as commercial negotiations, on an unwitting basis, and only as a last resort would any attempt be made to use CIA and Air Force intervention to obtain favorable results for CAT.

d. A short briefing on maintenance facilities and the military utilization thereof, indicating that the quality of the work done by CAT had been a substantial factor in obtaining valuable customers and contracts.

(b)(1)
(b)(3)

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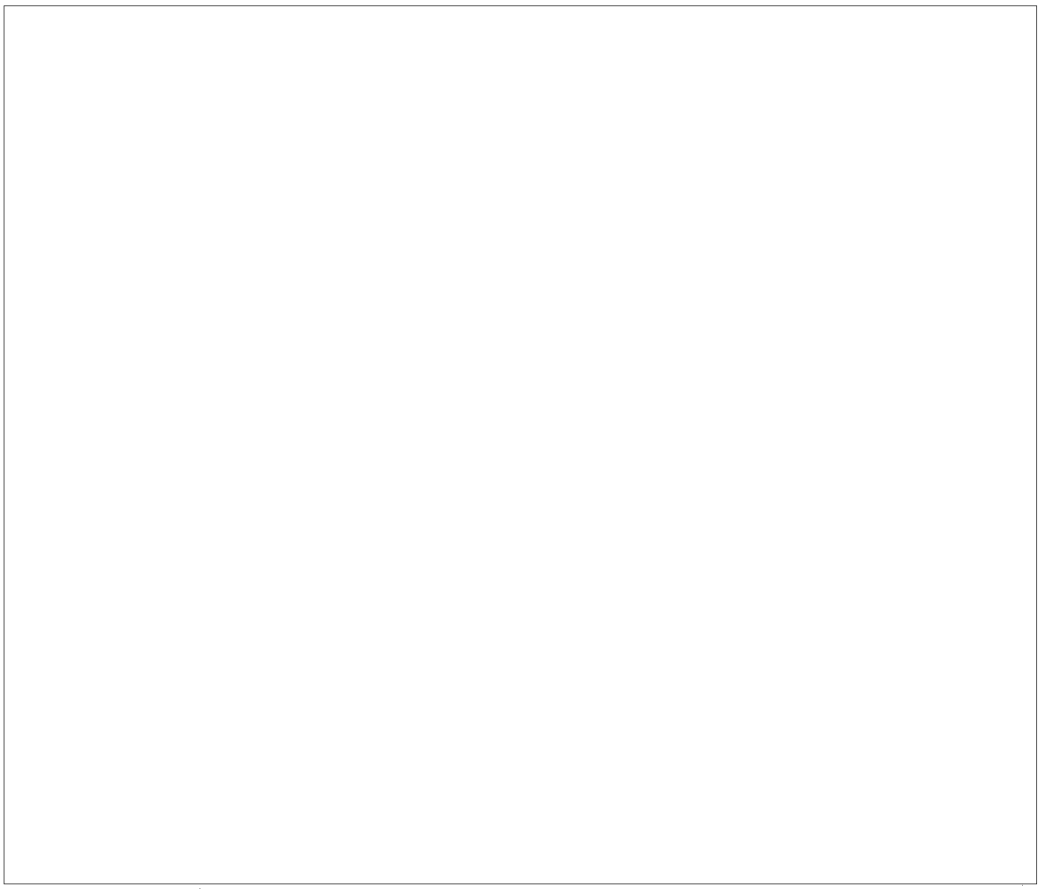

(b)(1)
(b)(3)

In forwarding these briefing sheets to the DCI, the General Counsel, in his covering memorandum, noted that the conclusion of this survey was that CAT could continue its commercial operation in the foreseeable future so as to meet admirably both overt and covert government requirements. It noted that there would still remain two fundamental problems. The first involved sound short and long-range planning to develop the most economical, efficient commercial operation consistent with the overall requirements. The second arose out of the continuing need for

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subsidizing CAT. It was indicated that a continuing study was being made in order to tailor the entire commercial structure as closely as possible to the actualities of normal air operations; the General Counsel also supported the recommendation that [redacted] be referred back to OCB so that rigid requirements heretofore set could be replaced by a new policy statement to the effect that CAT would only maintain the capacity to meet government requirements as its commercial cover permits.41/ (b)(1) (b)(3)

All of the comments made above were briefing notes for the Director, for his meeting on 25 April 1955 with the CAT board of directors. These notes, therefore, consisted almost entirely of matters which could properly be discussed with the board of directors and did not cover strictly Agency activities.

A brief mention has been made of the activity in

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Also, the briefing papers made some slight reference to the fact that it had been possible to insert

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The writer feels that he was much too close to the scene to give an impartial evaluation of the overall CAT contribution to Agency and national objectives, and as to whether its retention by the Agency during the first few difficult years was justified. That is left to the reader of this historical paper to judge. Subsequent events have proven that the annual decision to retain the airline, rightly or wrongly at the time, was a fortunate one.

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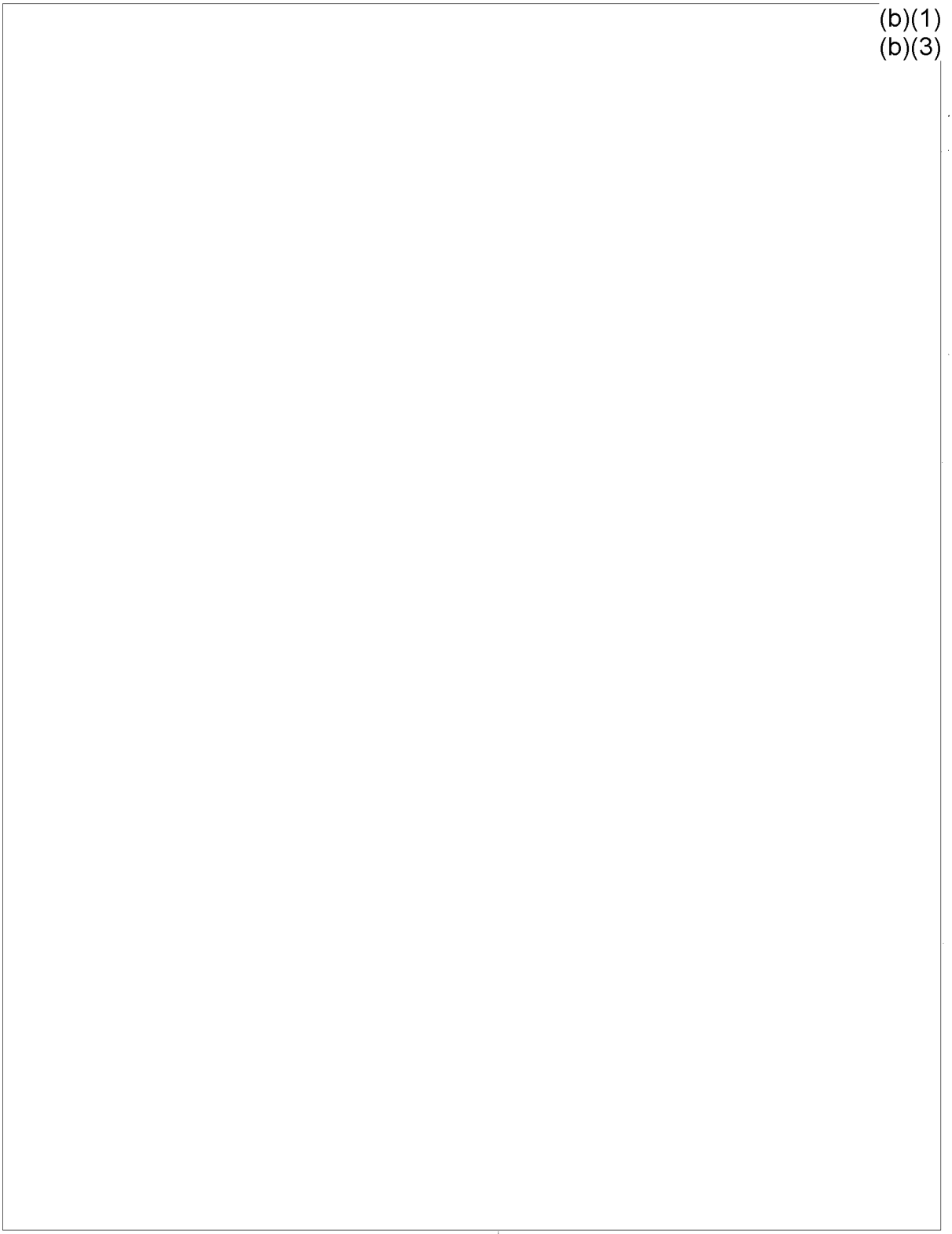

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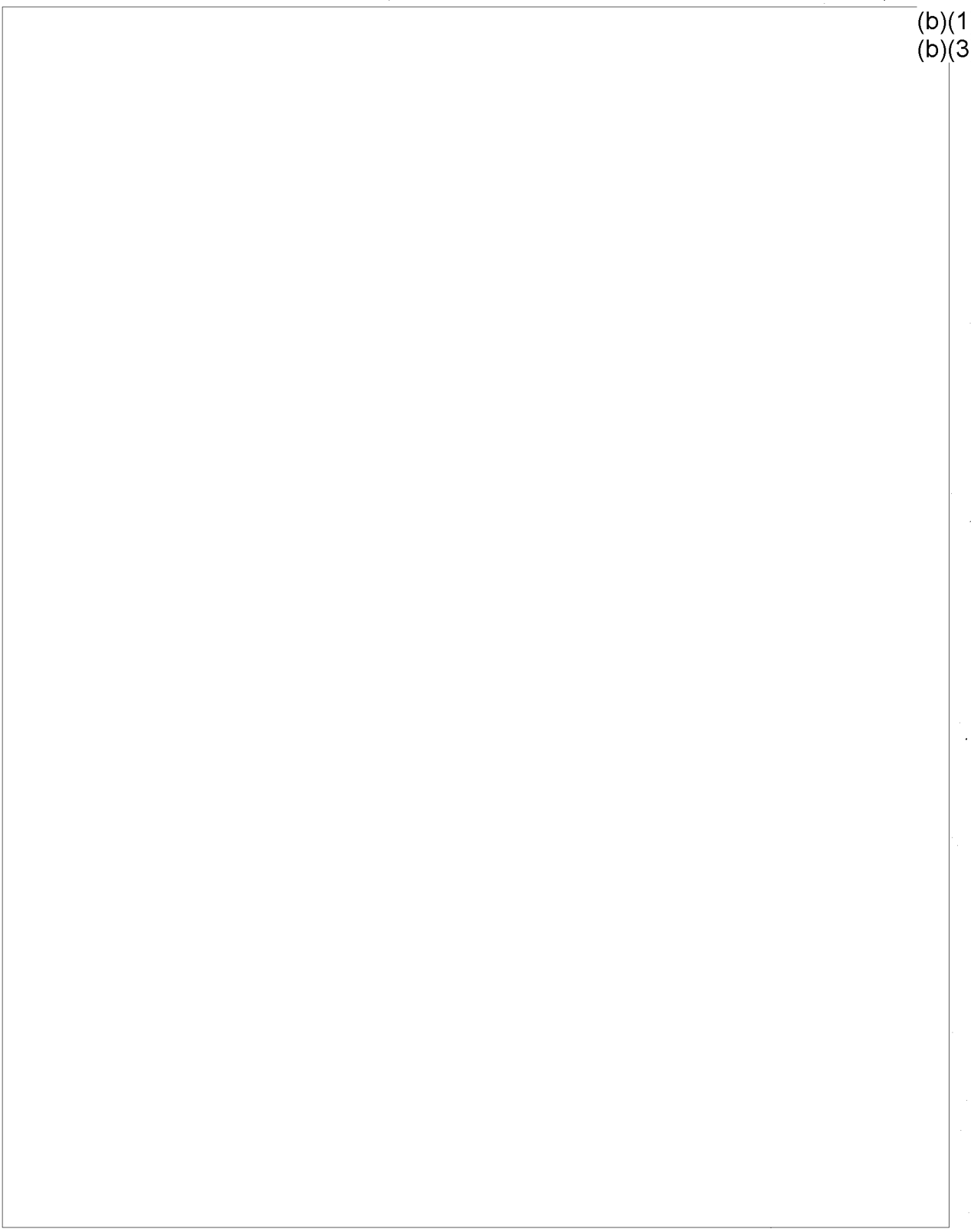

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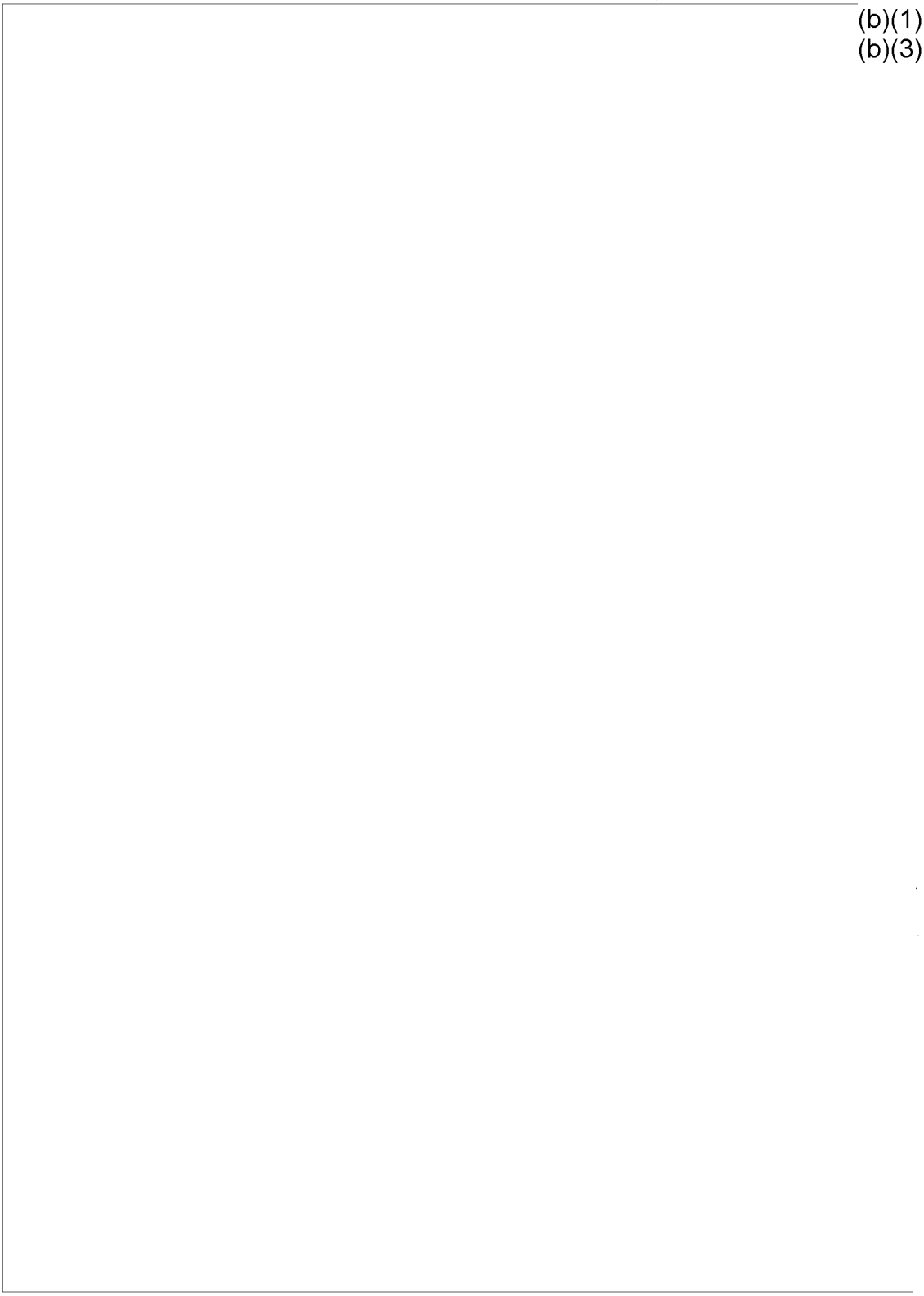

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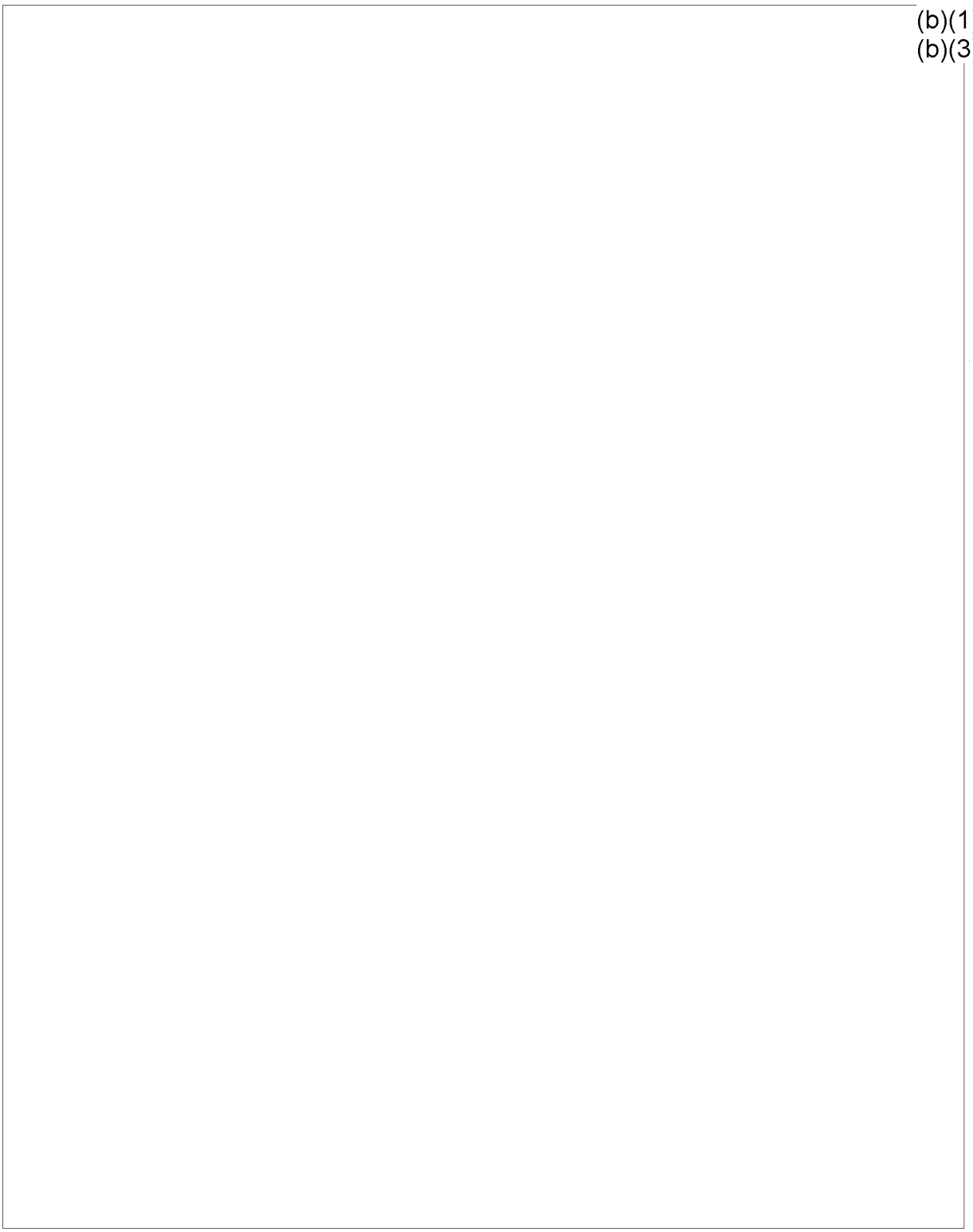

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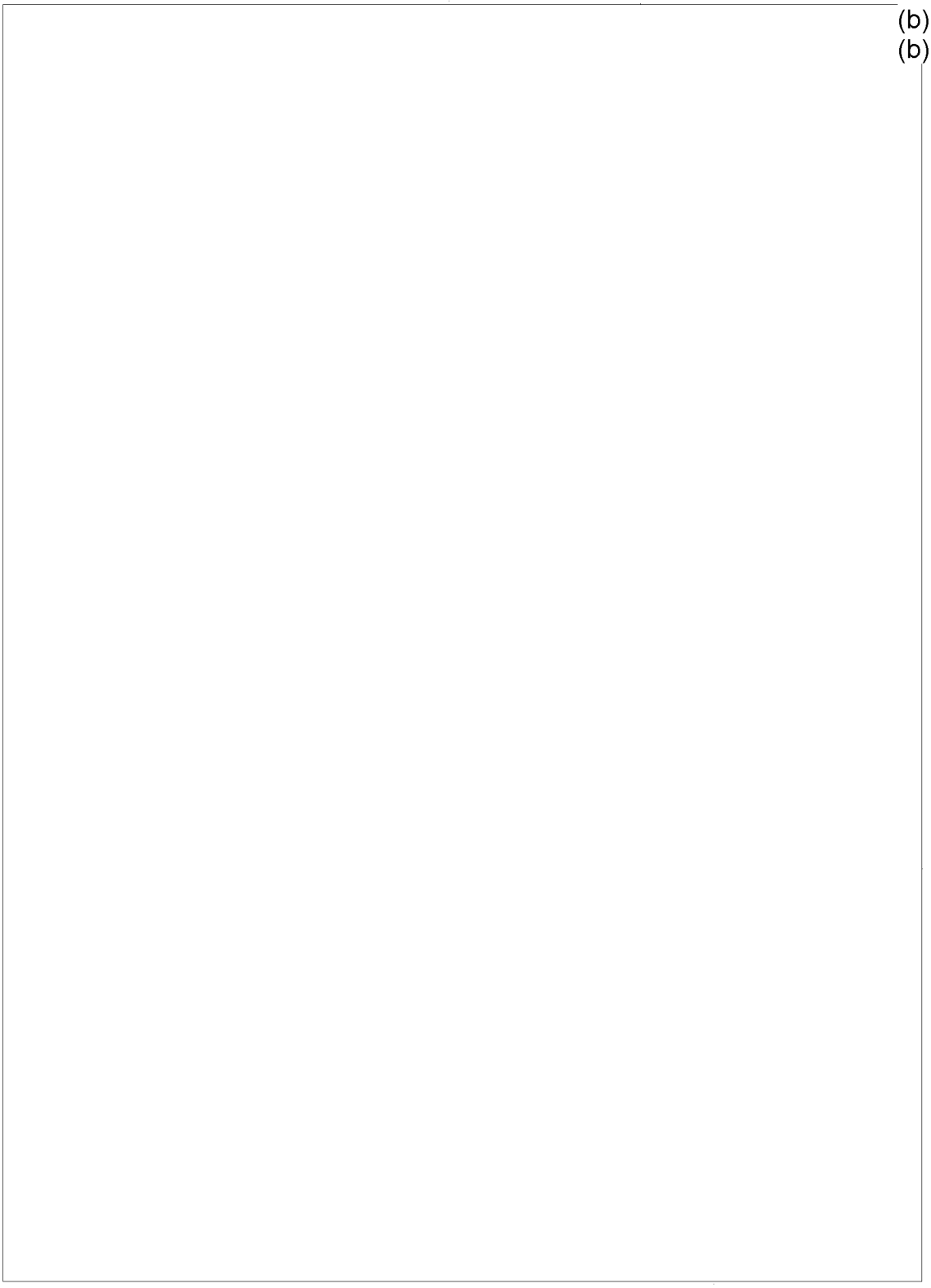

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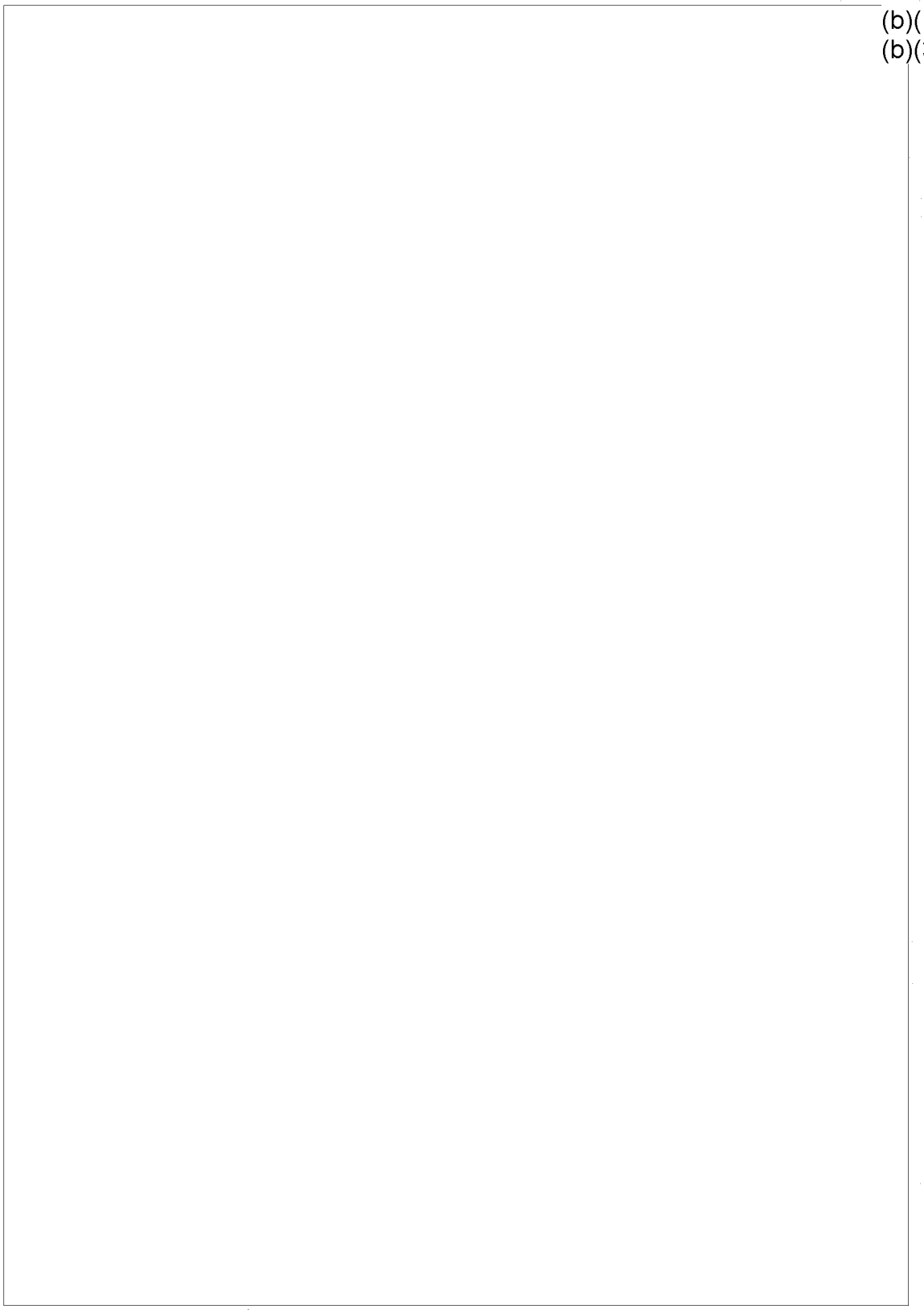

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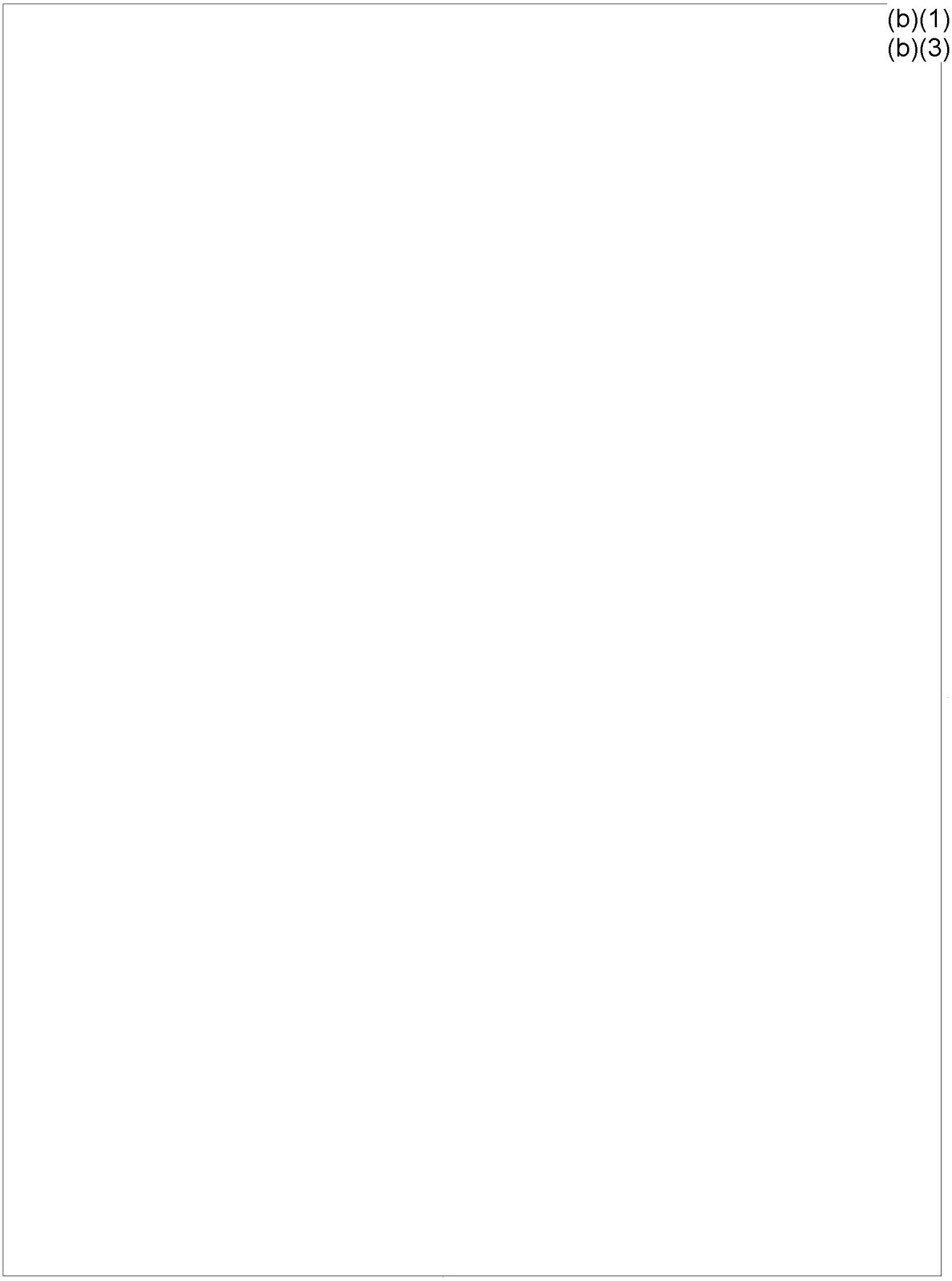

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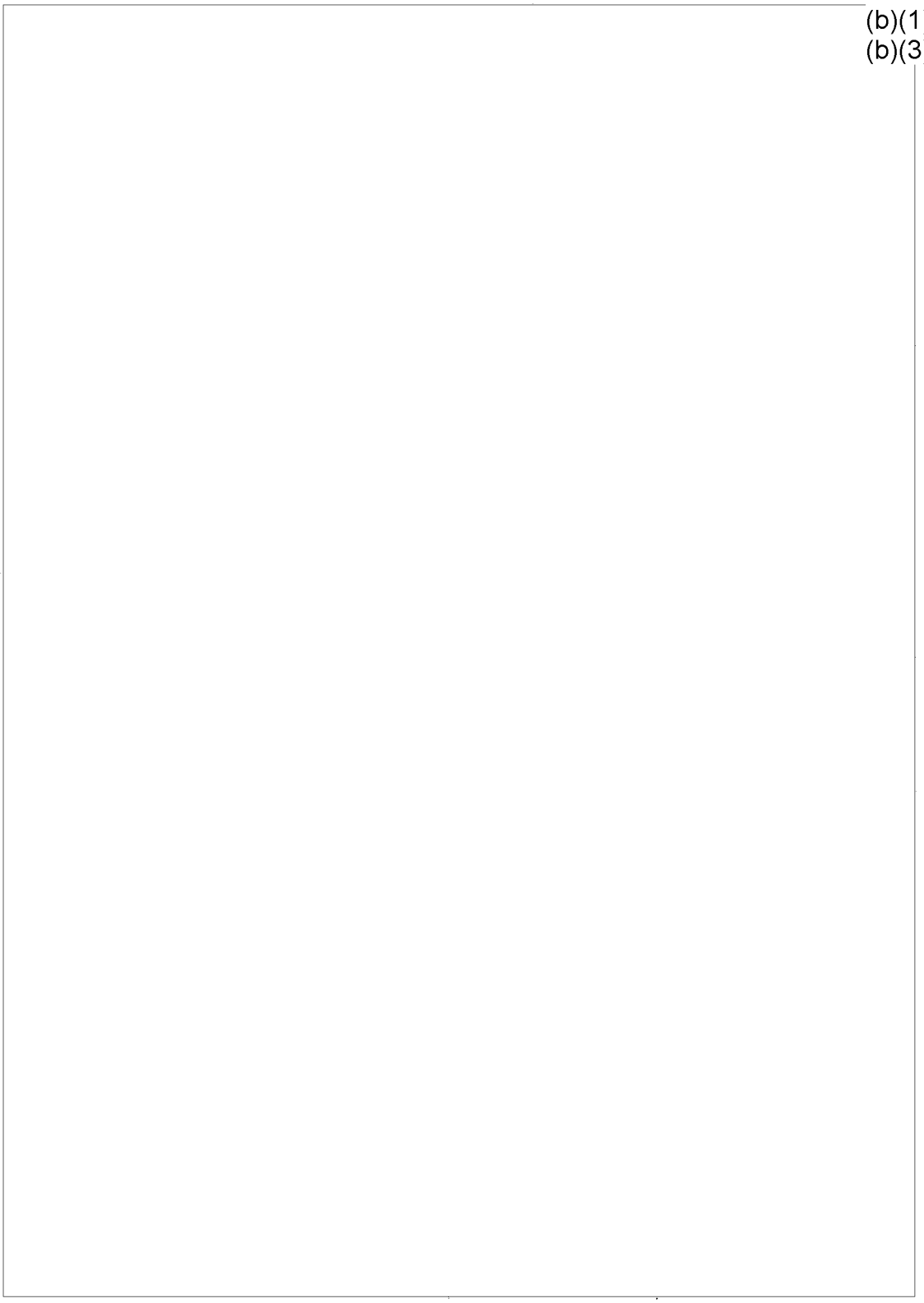

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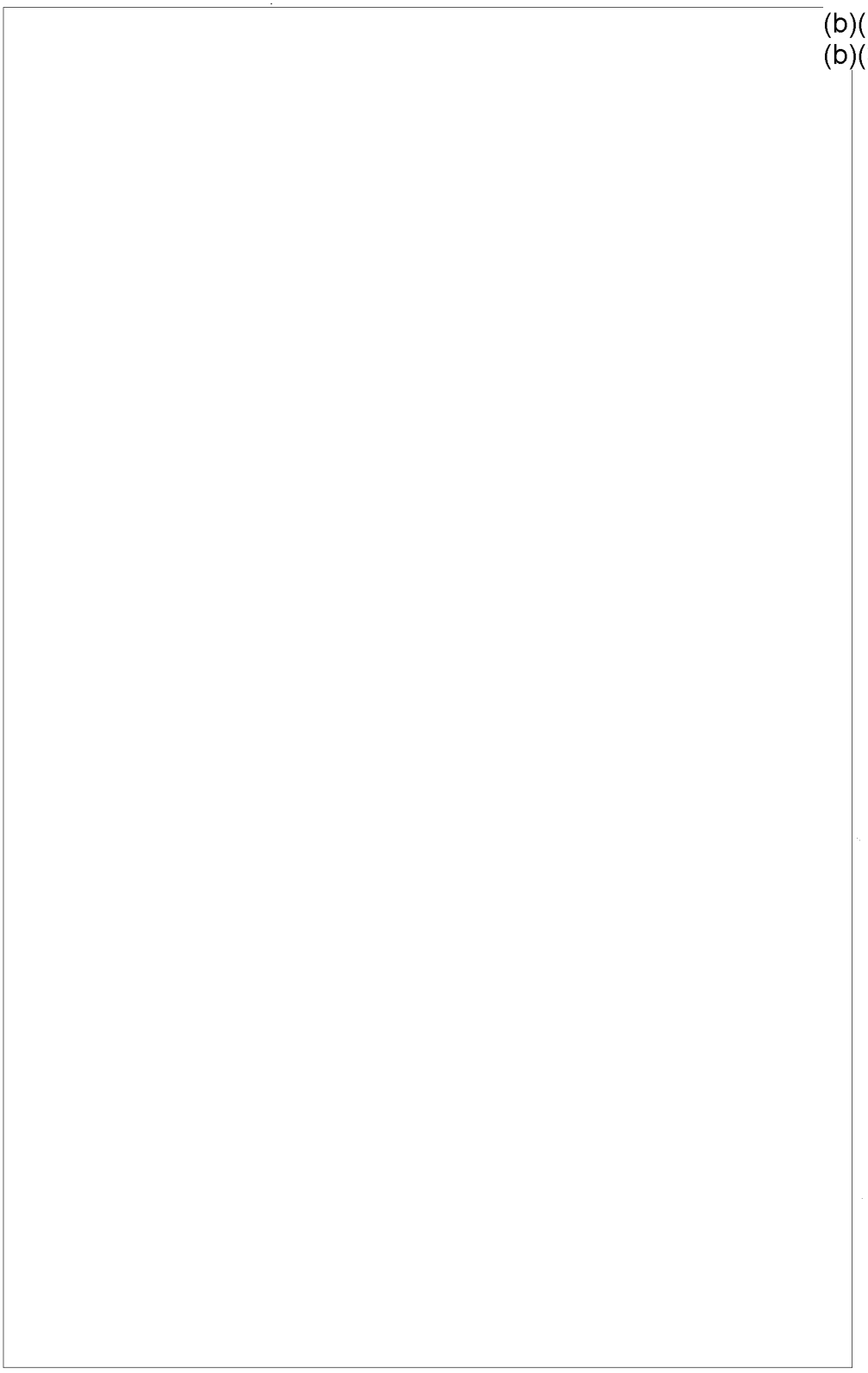

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Letter, no subject (letter of transmittal of memo noted above to Frank [F.G. Wisner] from [redacted], 16 January 1951, (b)(3)
Secret, Sensitive V-62, V-63.

2. Memo for the Record, by R.G.S. DCOP, Subject: Memo of Agreement Between Government and Civil Air Transport with Memo of Agreement Att., 3 October 1949, TS-35242, Series B.

3. [redacted] (b)(3)

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5. Volume I, Section IV B, The Korean War, of this history.

6. Volume III, Tabs B, C and D of this histor (b)(1) (b)(3)

7. [redacted]

8. [redacted] Memo of Conference (b)(3)
with [redacted] by Whiting Willauer, (b)(3)
Tokyo 25 February 1952.

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10. Memo for DD/P from Chief, I&R, Subject: Purchase of Won by CAT, 24 June 1953, DDP 4447.

11. Memo from Psychiatrist, [redacted]
[redacted] 9 February 1954. Subject: Interview (b)(3)
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12. Draft memo contained in [redacted] (b)(3)

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13. Memo for Sheffield Edwards A/G/A (INS) from Stuart Hedden IG, Subject: [redacted] 24 September 1952, ER-3-2869. (b)(3)

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15. Memo for the Record by Stuart Hedden, Subject: CAT 2 January 1952, TS-62906.

16. CAT Inter-office Memo to Board of Directors from Acting President and Managing Director, Subject: Progress Report for Board Meeting, 24 November 1952, dated 17 November 1952, CAT Ref. No. L.A.T.C. 52-197.

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18. Memo for ADPC from [redacted], Special Assistant for Inspection, Subject: Whiting Willauer, 2 July 1951, OPC Registry 230-120-5. (b)(3)

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21. Memo for the Record by [redacted], Chief of Administration, DD/P, Subject: Briefing on CAT, 23 September 1953, DD/P 5759. (b)(3)

22. Memo for the Record by [redacted] (b)(3)
Chief, [redacted] (b)(3)
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24. Memorandum, no addressee, by DD/P, Subject: memo of Points for Discussion of CAT Decision with the Director, 17 December 1953, DD/P 7933.

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27. Memo for George E. Aurell from Robert C. Strong, Department of State, Subject: Visit of Admiral Radford to Formosa, 15 December 1953.

28. Memo for DCI from C/FE, Subject: Visit of Admiral Radford to Formosa (CAT Franchise), 15 December 1953, DD/P 8734.

29. Memo for DD/P from Chief of Admin DD/P Subject: CAT, 1 February 1954, DD/P 8617.

30. State Department Cable 424, 20 January 1954, from Ambassador Rankin to Assistant Secretary Robertson, Subject: [redacted] Payment to Bank of Taiwan by CATI. (This cable has not been available.) (b)(3)

31. Memo to C/FE from Chief of Mission CAT [redacted] Monthly Report 22 September 1954, Enclosure to FCCA-87, Memo of Transmittal of Monthly Report. (b)(3)

32. Memo from A.T. Cox, Subject: Early History of Agency Relationship with Civil Air Transport (CAT) (Att. to DDS-62-0641) Control Report, Written at the Request of the IG Staff in the Course of an Investigation of CAT, 14 February 1962.

33. Memo CNAC/CATC Litigation (Att. to DD/S 62-0641).

34. Memo for DADPC from Deputy Comptroller, Subject: Accounts of A.T. Cox [in pseudo] 20 January 1951.

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35. Memo for [redacted], DD/P through F.G. Wisner, DD/P, from Emmet Echols, Chief, Administration Staff (S), Subject: Accountability of A.T. Cox [redacted] China for Period 1 October 1949 through 31 October 1951, 22 August 1952. (b)(3) (b)(3) (b)(1) (b)(3)

36. Memo for CFE through C/FE-2, from A.T. Cox [redacted], Subject: Organization Procedures, China Mission 14 April 1952. (b)(3)

37. Memo from [redacted] for [redacted], Subject: Civil Air Transport (CAT), 7 April 1965, (R-212) Page 7. (b)(3) (b)(3)

38. Memo for DD/P (Eyes Only) Highlights of ADPC's Impressions on Far East - General, 15 March 1952.

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